DIGIA

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INDERES CORPORATE CUSTOMER

EXTENSIVE REPORT

Long-term, continuous and good strategy execution

Digia has continued its systematic and successful strategy execution for the last ten years. Currently, the focus is on internationalization, which was further strengthened by an interesting Polish acquisition. We expect the company to continue its systematic strategy implementation, moderate organic growth in the coming years and accelerate growth through acquisitions. We forecast profitability to increase slightly and to be clearly above the sector and slightly below its own potential. The share's valuation is attractive from several perspectives (2026e P/E 10x and EV/EBIT 8x). We reiterate our target price of EUR 8.3 but, driven by the share price appreciation, downgrade our recommendation to Accumulate (was Buy).

Digia's offering covers the entire IT life cycle, which responds well to market trends

Digia is an IT service company operating mainly in the Finnish market, but it has also expanded more strongly into the Swedish and Polish markets through acquisitions. The company's offering covers the IT lifecycle from the development of digital services to their maintenance, which is a clear competitive advantage in the current market situation. The company's traditional spearheads are integration expertise and ERP systems, as well as now also secure software development, which are strong individual competencies in the current market situation. Demand has continued to shift from dot-like purchasing towards a comprehensive need for solutions, where Digia's competitive edge is at its strongest. Demand has continued to shift from dot-like purchasing towards a comprehensive need for solutions, where Digia's competitive edge is at its strongest. Digia also has its own well-established software products that bring stability, but whose potential is still unexploited. With its latest and interesting acquisition, the company expanded into the Polish market, strengthening its price competitiveness and integration expertise.

Strategy execution has been continuous and effective; now the focus is on internationalization

Digia has executed its strategy well and systematically over the past ten years. The strategy periods have been a natural continuation of the previous ones. The current strategy period is coming to an end, and the company has achieved or is very close to achieving its key financial targets for growth (>10%), profitability (EBITA: 12%) and internationalization (>15% of revenue). We also estimate that the next strategy period will be a natural continuation of previous ones, and we expect internationalization to remain a clear focus. With the latest acquisition, the company's vision for internationalization is to "be a Northern European Integration Powerhouse". In addition, we estimate that Digia will focus on a few good growth areas for it, where the company has already demonstrated a competitive advantage (security and defense sector, integration and data expertise, and its own product areas). We also estimate that the company will repeat its financial targets for the next period.

We forecast stable earnings growth of around 10% in the coming years

We estimate that Digia's revenue will grow organically by 2-5% in 2025-2028. In addition, we expect the company to continue to strengthen its service offering and grow through acquisitions, which is made possible by its cash and strong cash flow. We expect the EBITA margin to increase to 11% by 2028, supported by better operational efficiency and scalable solutions, although there is also potential for over 12%. Digia's risk profile is among the lowest in the sector, and the company's key risks relate to customer demand (market reversal and its timing), project management, return on investments and acquisitions.

Valuation picture is attractive

Digia has strengthened its profile as an earnings growth company and has risen to become one of the sector's top performers, which supports the share valuation. Based on the valuation methods we use, the stock is attractively (2026e P/E 10x and EV/EBIT 8x) or even very attractively priced from almost all perspectives. When examining our cash flow calculation and relative valuation level, the stock is very attractively priced. In addition, the company's risk profile is among the lowest in the sector. In summary, we see the fair value of the share in the range of EUR 8-9 per share.

Recommendation
Accumulate
(was Buy)

Target price:
EUR 8.30
(was EUR 8.30)

Share price:
EUR 7.34

Business risk
●●○○○

Valuation risk
●●○○○

	2024	2025e	2026e	2027e
Revenue	206	219	236	244
growth-%	7%	6%	8%	3%
EBIT adj.	21.2	21.8	25.1	26.5
EBIT-% adj.	10.3 %	10.0 %	10.6 %	10.9 %
Net income	13.3	14.3	17.7	19.4
EPS (adj.)	0.60	0.64	0.73	0.78

P/E (adj.)	11.1	11.4	10.0	9.4
P/B	2.1	2.1	1.9	1.6
Dividend yield-%	2.7 %	2.6 %	2.9 %	3.1 %
EV/EBIT (adj.)	8.8	9.1	7.6	6.6
EV/EBITDA	7.5	7.9	6.6	5.8
EV/S	0.9	0.9	0.8	0.7

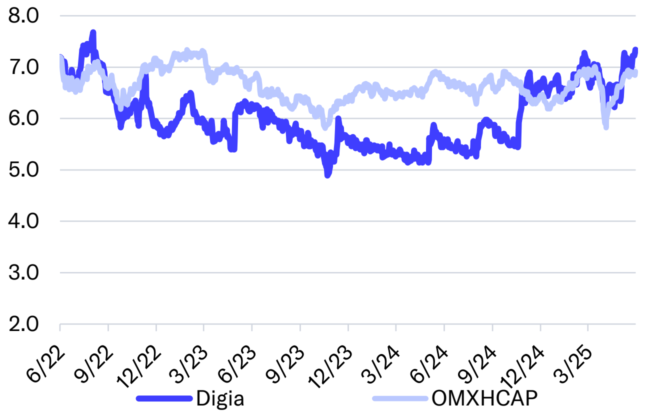
Source: Inderes

Guidance (Unchanged)

Digia guides for revenue to grow and EBITA to grow or be at the same level compared to 2024.

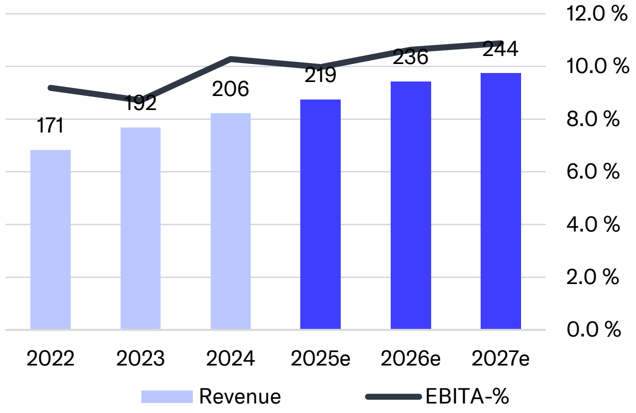
Contents

Share price



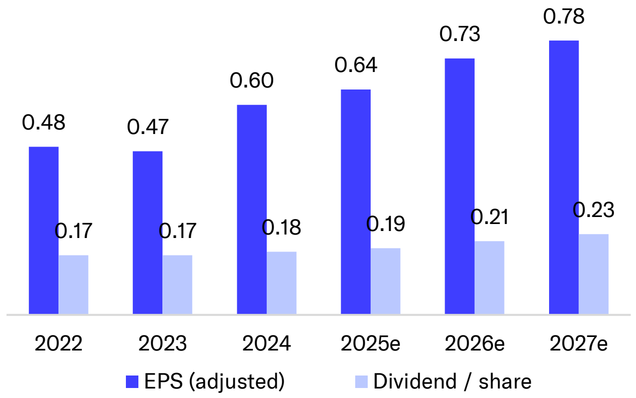
Source: Millistream Market Data AB

Revenue and EBIT-% (adj.)



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Strong long-term market growth
- Market trends are favorable for Digia's offering
- Still some potential for improvement in profitability
- Increasing recurring services and scalable business
- Internationalization
- Acquisitions

Risk factors

- Competitiveness in the talent competition, wage inflation and employee turnover
- M&A integrations
- Return on investments
- Project risks of large projects and customers' bargaining power
- Positioning as a mid-sized player between large and small operators
- Failure in internationalization

Valuation	2025e	2026e	2027e
Share price	7.34	7.34	7.34
Number of shares, millions	26.8	26.8	26.8
Market cap	197	197	197
EV	206	191	175
P/E (adj.)	11.4	10.0	9.4
P/E	13.8	11.1	10.2
P/B	2.1	1.9	1.6
P/S	0.9	0.8	0.8
EV/Sales	0.9	0.8	0.7
EV/EBITDA	7.9	6.6	5.8
EV/EBIT (adj.)	9.1	7.6	6.6
Payout ratio (%)	35.6 %	31.9 %	31.9 %
Dividend yield-%	2.6 %	2.9 %	3.1 %

Source: Inderes

Digia in brief

Digia is a software and IT service company that operates mainly in the Finnish market, but through acquisitions also in the Swedish and Polish markets. The company's offering covers most of the IT life cycle, including digital service development, integration, data, business back-end systems and maintenance services.

206 MEUR **(7.1% vs. 2023)**

Revenue 2024

21.2 MEUR or 10.3 % of revenue

EBITA 2024

50% and 50% **(44% / 56% 2023)**

Project / Service and maintenance revenue in 2024

12% **(9 % 2023 and H2'25e 18%)**

Share of international business in revenue, 2024

12% **(12% 2023)**

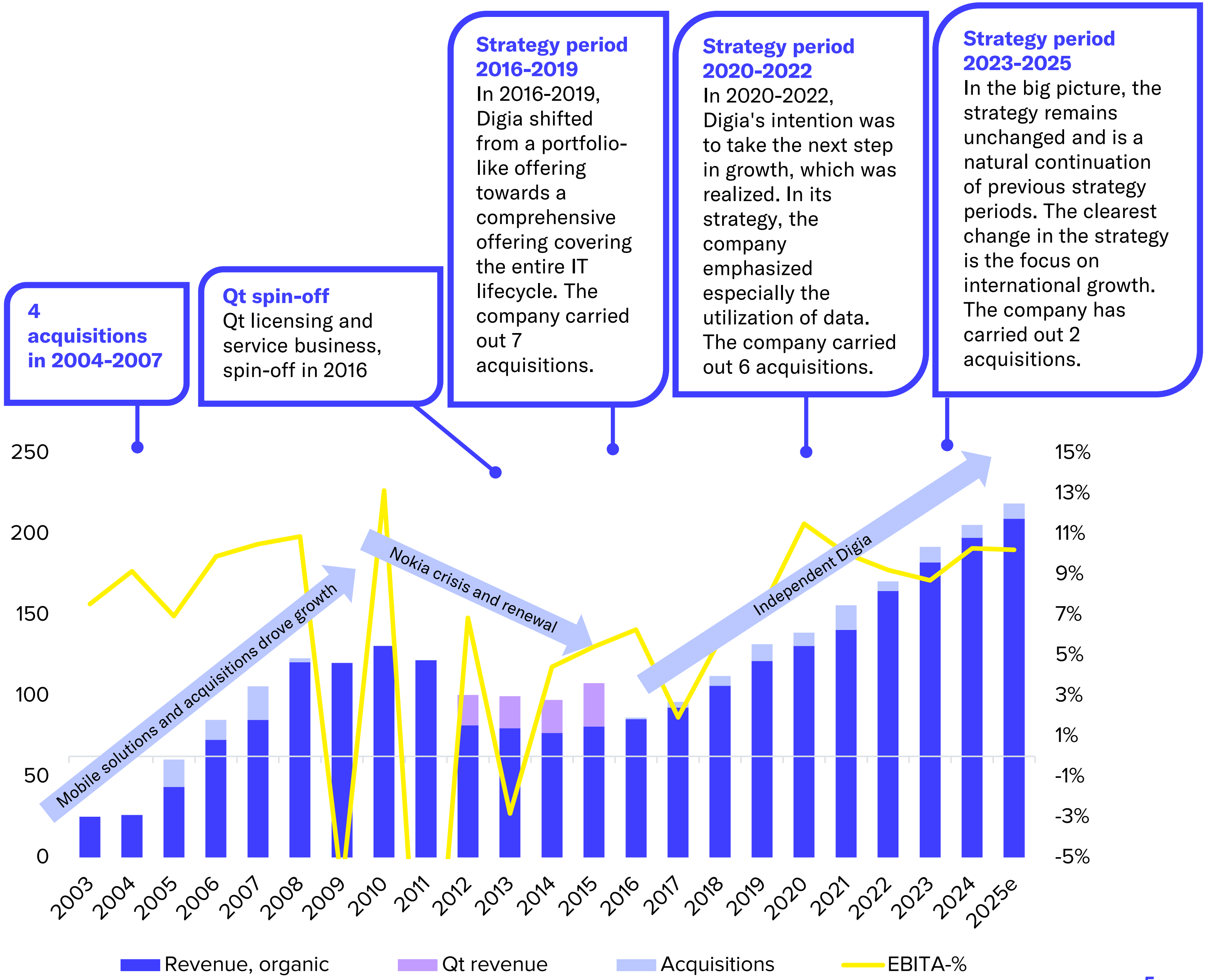
Share of product business of revenue in 2024

Strategy period 2023-2025

Growth target above 10% (2023-25e 9%)

EBITA margin target over 12% 2025 (2025e 10%)

International business 15% of revenue in 2025



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Company description

Ability and scale to deliver demanding comprehensive solutions to several different industries

Digia is a software and IT service company strongly established in the Finnish IT market with a good foothold in medium-sized and large companies. The company's offering broadly covers the IT lifecycle, including the development, integration and data of digital services, background systems (ERP) as well as 24/7 support and continuous services. The company's DNA is deeply rooted in customers' business-critical core systems, but for almost a decade, the company has also been successfully transforming towards the development of new digital services for its customers. The company serves several different sectors, but especially wholesale, industry and the financial sector in the private sector, and especially the defense industry in the public sector.

Digia's revenue grew by 7% to 206 MEUR and the EBITA margin was 10% in 2024. The company employed 1,576 people, making it one of the largest and most profitable players in the Finnish IT service market. Geographically, the company operates in Finland in Helsinki, Joensuu, Jyväskylä, Kuopio, Oulu, Rauma, Tampere, Turku, Lahti and Vaasa. In addition, the company has offices in Stockholm and Malmö in Sweden, and a small operation in Hengelo in the Netherlands. With the Savangard acquisition, the company also expanded to Warsaw and Czestochowa in Poland, where more than 150 people work. International operations are expected to account for some 18% of the company's revenue by the end of 2025, mainly from Sweden and Poland. Half of the revenue comes from service and maintenance business, which is recurring and brings stability to the business.

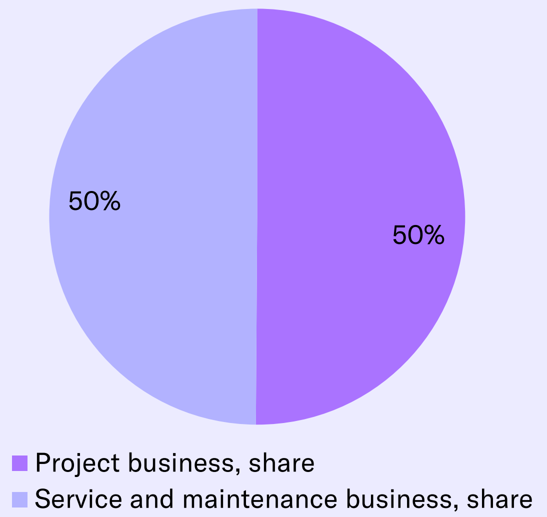
The current structure has been developed for a decade

In its history, Digia has gone through several major structural changes, such as the decline of the mobile business in the Nokia crisis, as well as the acquisition of the Qt software development tool and the spin-off of this business. History has brought Digia strengths (e.g. the ability to reform). The ability to renew is an important strength in the IT market's continuous and, driven by artificial intelligence, even accelerating change. In addition, thanks to its history, the company has strong customer relationships and industry expertise, its own product business and credibility.

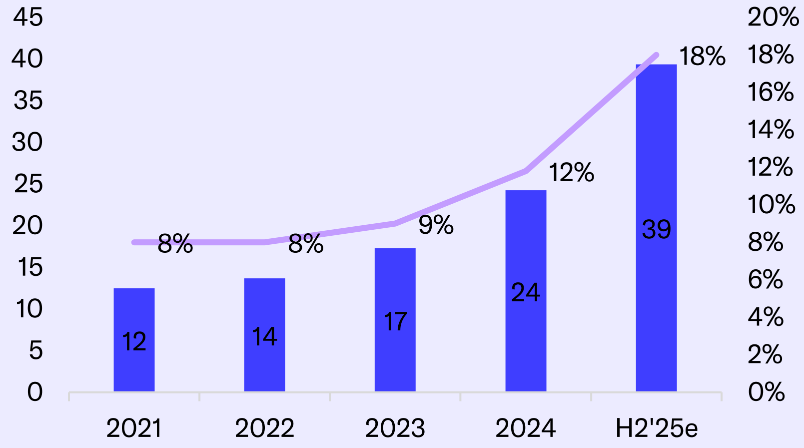
During its strategy period from 2016 to 2019, Digia shifted from a portfolio-like offering towards a more unified total offering that covers the entire IT lifecycle. The company has strengthened its offering with numerous acquisitions in the market's growing service areas. Looking at the offering, the company's strengths are clearly in core process expertise (background systems) and in the systems and integration that support them. Digia started strengthening its offering and expertise in growing new digital services from a trailing position compared to its competitors, and has already grown to a very competitive size in the Finnish market. The benefits of this have been seen in several customer deliveries, as the company's customer base has expanded and the demand for broader, full lifecycle expertise has further strengthened.

During its strategy period from 2020 to 2022, Digia's intention was to take the next step in growth. In its strategy, the company emphasized in particular the opportunities to utilize data in customers' services and business processes. In our view, the strategy is a natural continuation of the previous strategy period, when the foundation for long-term growth and competitiveness was built.

Revenue distribution



International revenue



Company description and business model 2/8

During its 2020-22 strategy period, the company invested in its own business platform to improve efficiency and increase scalable elements. In addition, the company continued its inorganic growth during the strategy period and strengthened its data expertise and subcontractor network in particular. However, the IT service market during those years was hampered first by COVID and then by Russia's attack on Ukraine. In the big picture, the offering was strengthened and the strategy period investments were implemented. The benefits of the strategy period should then be reaped in the coming years, especially with Digia's own new Digia Business Engine ERP, but the current challenging market situation has eroded these benefits.

In its new strategy period for 2023-2025, Digia has aimed to continue creating sustainable customer value, profitable growth and internationalize its business. A clear theme in the strategy is automation and intelligence, which the company sees becoming stronger and stronger in all of its service areas. In the big picture, the strategy remains unchanged and is a natural continuation of previous strategy periods. In our view, the clearest change in the strategy is the focus on pursuing international growth. In 2023, the company took a clear leap in internationalization with the acquisition of Top of Minds, and with the Savangard acquisition in the summer of 2025, the company also expanded to the new Polish market.

Product business is back in focus

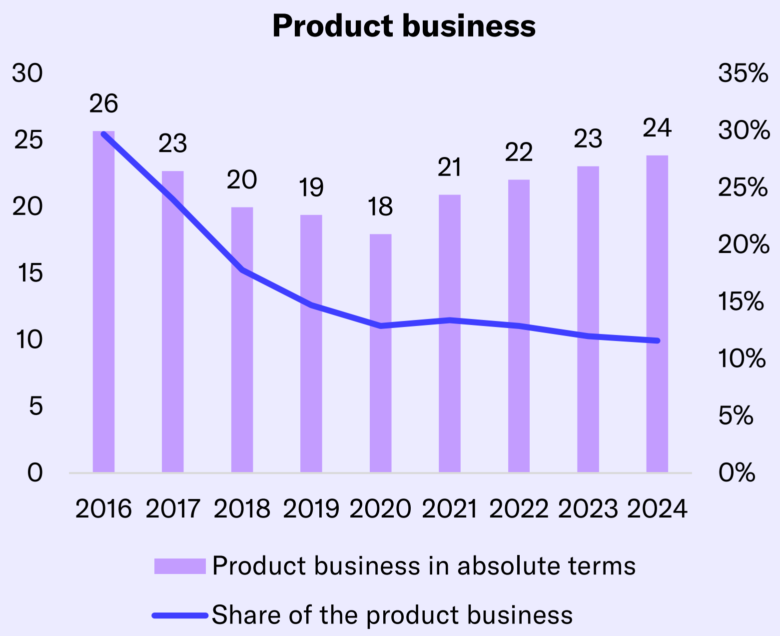
In addition to the service business, Digia has a product business, which consists of Digia's own licenses, partners' license sales and license maintenance. Digia has two significant own product suites. The DiFS product family for the banking and insurance sector and the Digia Envision ERP system. In addition, the company has several individual smaller product solutions of its own, including the rapidly growing automation and AI service Digia Dolphin.

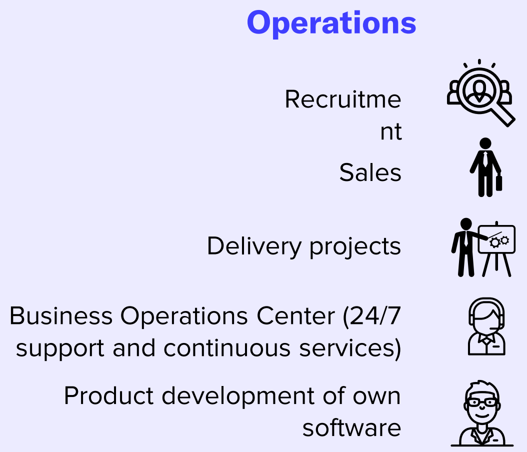
In addition to its own products, Digia delivers product solutions from numerous large and smaller technology companies. Digia is particularly strong in ERP systems, especially in the delivery of Microsoft's Dynamics 365 product. However, the product's strong cloud transition is now largely behind it, and work is largely shifting to maintenance and continuous development. However, this phase does not fully compensate for the workload of the cloud migration phase, which required small-scale adjustments in Q2.

The relative share of product business decreased to just under 15% of revenue in the late 2010s, which corresponded to just over 20 MEUR in annual revenue. This is below the 2016 level of 26 MEUR or 30% of revenue. Now, proprietary products are once again in stronger focus, as the company invested more clearly in its own scalable solutions during the last strategy period. In our estimate, proprietary products account for a good half of the product business, which is based on the license share of materials and services (35% of these expenses). Currently, the products require continuous investments of slightly less than 1 MEUR annually, which is directly visible in the income statement. The investments have not yet translated into clearer growth, but the company is still taking new measures to generate growth. The growth of proprietary products would generally scale well into profitability due to high gross margins.

Service areas and business model

Digia consists of four business areas: Digital Solutions, Managed Solutions, Business Platforms and Financial Platforms. There are synergies between the first three, and Financial Platforms is more separate from the other operations. All business areas are constantly developing their operations independently.





Company description and business model 3/8

Digital Solutions – data utilization, digital services and customer experience

Over several strategy periods, Digia has already invested significantly in developing expertise in digital services to strengthen its overall offering in the service area. The company has strengthened its expertise through recruitments and eight targeted acquisitions in the last five years. The Digital Solutions service area covers data utilization and analytics solutions, artificial intelligence, customer relationship management, digital services such as mobile development, e-commerce solutions and other online services.

Digital Solutions employs 430 people, most of whom work in application development, e-commerce and data analytics, and a few dozen in consulting. In addition, the company's Digia Hub subcontracting network has more than 20,000 experts in Finland and EU countries (2021: >2,000), of which Digia employs around 250 experts simultaneously. The use of subcontracting has increased significantly in recent years. The materials and services cost line reflects subcontracting to some extent, and its share of revenue has increased to 17% of revenue in 2022-24 (2020: 11%). Subcontracting has accounted for about 65% of material and service expenses in recent years.

Digia's strength in this area lies in multidimensional, intelligent and data-driven online services, in the provision of data and analytics services for companies, and in online commerce. In e-commerce, the strength lies particularly in multi-channel solutions, which is supported by strong ERP and integration expertise. The company has been very successful in expanding into e-commerce solutions and integrating them into its other offerings. Digia's data-related offering includes data management, visualization, and analytics solutions, ranging from data warehousing and core data management to predictive analytics solutions. Digia utilizes analytics and artificial intelligence throughout its offering. Data and analytics were a key priority area in the previous strategy period and one of the fastest growing segments of the IT services market. Now, in the new strategy period, it will be further refined through smart solutions utilizing artificial intelligence.

The IT service market was very favorable for many years in most areas. Over the past two years, the market has become challenging, in some areas even very challenging. The challenges have particularly affected the Digital Solutions segment and application development. Despite the market challenges, Digia, and according to our understanding also the Digital Solutions unit, has performed relatively well compared to the market.

In the coming years, the segment will focus on; 1) smart applications, 2) transferring data expertise throughout the organization, 3) utilizing artificial intelligence, 4) developing and integrating the Swedish operations into Digia, 5) customer management, and 6) further improving the utilization of the Digia Hub subcontracting network.

Managed Solutions – Integration, cybersecurity and continuous services

Managed Solutions applications are in the company's DNA. The service area includes a strong integration offering, cybersecurity, cloud platforms and continuous services. Currently, the area employs some 800 people, including the Savangard acquisition.

In terms of its service offering, the segment has developed the most in the last couple of years. Digia has further developed its own Business Operations Center, which covers the management of business processes from start to finish, including 24/7 monitoring, security-classified facilities and personnel, security-cleared and application services.

Service areas

= ~100 experts

Digital Solutions

- Digital services such as mobile development, e-commerce solutions and other online services
- Data and analytics solutions
- Digia Hub (20,000 subcontractors)

Managed Solutions

- Integration and API
- Cybersecurity and secure software solutions
- Cloud platforms
- Continuous services
- Automation and artificial intelligence platform

Business Platforms

- Business Platforms
  - Digia Envision (own)
  - Microsoft Dynamics 365
  - Oracle NetSuite

Financial Platforms

- The DiFS product family
- Back-office services

Source: Digia and Inderes

Company description and business model 4/8

In addition, integration expertise and price competitiveness were strengthened in May 2025 with the Polish Savangard acquisition. Digia's integration expertise is one of the strongest in Finland and one of the company's spearheads. The Savangard acquisition makes strong integration expertise relevant in all of Digia's markets.

The demand for integration expertise has been strong for years, especially during the COVID pandemic and the current economic uncertainty. For a long time, the shortage of experts was a bottleneck to growth, and the company already started solving this with its own academy in the 2010s. The company understood the importance of integration expertise early on, when many others neglected the area. Now the availability of talent is better than in years, and Digia has also taken advantage of this by recruiting integration experts. Integration and especially application programming interface (API) capabilities are an important competitive advantage for the company, and its importance as an area of expertise in the market has been emphasized for several years. In terms of technologies, Digia uses IBM, Microsoft, Oracle, MuleSoft, FRENDS, Dell Boomi, Apache ServiceMix and Digia iSuite technologies in its integration deliveries. These deliveries are mainly service business and less project-based, but they also involve continuous and scalable delivery models.

Digia also offers its customers cybersecurity services and solutions for the security sector. Cybersecurity services include, for example, consulting, continuity planning, training, securely designed and implemented software architecture, and secure software development. The security sector offering covers comprehensive deliveries of solutions requiring a high level of protection and information systems for other regulated sectors to demanding operating environments. The lifecycle maintenance of the solutions is carried out using own products and IPR, as well as partners' solutions.

To implement classified projects, services and products, Digia has, among other things, CISSP-certified experts and audited (ST4 and ST3) production facilities, which creates a competitive advantage. More than 200 people work in these areas. Recently, the demand for security solutions has been strong, and according to our research, the service area was already one of the hottest in the sector, and this has further strengthened. Digia has been successful in this area, while many competitors are still struggling to ramp up operations and build a good reputation. In recent years, Digia has built more secure facility capacity in several locations and is currently able to meet demand. Cybersecurity business is thus already a significant part of the whole. The company's products and services are normally business-critical for customers. Digia has extensive experience and strong expertise in secure operating environments that require high levels of preparedness and compliance. These include, e.g., critical infrastructure, industry, private actors of societal importance, as well as the public and defense sector. Security is systematically integrated into the entire development and supply chain, taking into account industry-specific security and auditing requirements. As customer-specific needs diversify, the role of AI solutions grows, and international issues open doors even further, this offers Digia interesting growth opportunities in Finland, Poland and with regard to NATO.

Digia's continuous services also include the Business Operations Center and tasks related to product maintenance and security. Continuous services employ just under 100 people. The COVID pandemic accelerated the demand for monitoring and management needs as customers' business processes became round-the-clock operations in exceptional circumstances.

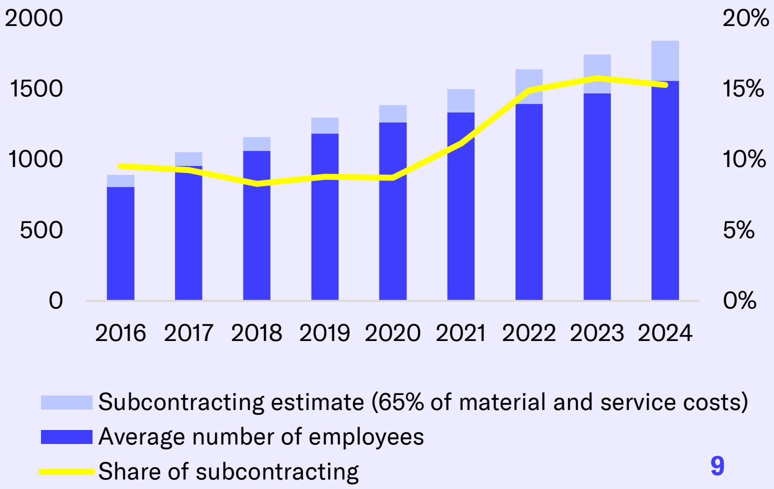
Partners

Technology suppliers and communities

Digia Hub subcontractor network and other resource renters

over 5,000 freelance professionals in Finland and nearshore countries

Own staff and subcontracting



Digia's service areas

Ability to deliver comprehensive solutions as a differentiating factor

SERVICES

CUSTOMER RELATIONSHIPS

DIGIA HUB

Business and service design

Data, analytics, security, automation and AI

Business Operations Center
(24/7 and service management)

Digital services
- Network services
- E-commerce
- Mobile services
- Product information management
- Marketing automation

Integration and API
- *Integrations*
- *API*
- Data platforms
- Cloud platforms

Business systems
- *CRM*
- *ERP*
- Solutions for the financial sector

Key customer segments
- Energy
- Public sector
- Retail
- High security customers/security authorities
- Service sector
- Banking, insurance and asset management
- Social services and health care
- Telecom operators
- Industrial

Customer IT lifecycle phases and Digia's service areas

Design / consulting
€/h or €/project

API, integration and analytics
€/h or €/project

Software projects
Own products
€/license
System deliveries
€/project

Continuous services and development
€/month
€/software

Recurring revenue ~50%
Projects and licenses ~50%

Source: Inderes, Digia

Company description and business model 5/8

The operations scale well and naturally support the company's other service areas. Maintenance capability has been a challenging area of expertise to build for many of the sector's growing software developers due to its different culture and competence profile. Reflecting this, we see maintenance expertise as a factor strengthening Digia's competitiveness. However, the service and maintenance business, which includes continuous services, has not grown in the last 3 years. However, the service area is still aiming for growth, especially driven by the Business Operations Center. The Business Operations Center has around 700 active customers and about 900 service agreements. Thus, in addition to upselling, there is good potential driven by new functions. In addition, AI will bring efficiency to numerous functions in the coming years, but especially to continuous services. The sale of Tietoevry Tech Services business may create customer churn in Tietoevry's business and, in turn, support Digia's new customer acquisition in continuous services.

In the coming years, the segment will focus on: 1) leveraging AI and automation to increase efficiency, 2) comprehensive service packages and outsourcing for customers, and 3) strengthening industry expertise in selected segments.

Business Platforms

The segment's services focus on enterprise resource planning (ERP) systems. This offering employs over 250 people serving more than 400 customers. The offering includes the company's own Progress-based Digia Envision product, as well as ERP solutions based on Microsoft Dynamics 365 and Oracle NetSuite technologies. The segment's solutions and services are independent of company size and industry.

The competitive advantage of Digia's own Digia Envision ERP software is the company's ability to tailor the pricing of the delivery's license, project and maintenance parts according to the competitive situation and the customer's needs, which improves overall competitiveness. The product is particularly well-suited to the needs of wholesale and food trade and companies with a revenue of over 20 MEUR. Digia Envision currently has over 100 user organizations and customer retention is at a good level. The Envision ERP product has been continuously developed, and most recently: 1) AI features (e.g. AI agents), which are now being commercially launched in Q2, 2) expanded to meet the requirements of the international defense industry, and 3) made suitable as a high-security solution. Thus, potential new customers in the future also include the international defense industry and customers requiring high security.

Microsoft Dynamics 365 is Digia's main technology in ERP. Digia's competitive advantages in the sales and integration of the Microsoft Dynamics 365 product are industry knowledge, service quality and scope, and solution capabilities. However, the cloud migration of Microsoft's ERP solutions is starting to be in the past, and work has shifted to further development and maintenance. Thus, the demand for this segment has decreased, and according to our understanding, the streamlining measures taken at the beginning of the year were partly related to this.

Oracle's NetSuite solution is best suited for growth companies going international, covering a wide range of the company's operational functions (finance, customer relationship management, project management, production control and supply chain management).

ERP system deliveries are mainly business-critical for customers, which makes customer relationships deep and long-lasting. Digia does not offer the customer several solutions but chooses the solution that suits the customer best. In this business, purchasing cycles are long, and the supplier's reputation, references, and credibility play an important role.

Main competitors of service areas

- Large IT generalists (such as Accenture, Tietoevry, CGI) are relevant competitors for the company in virtually all service areas.
- In enterprise resource planning, the company's main competitors in Finland are Fellowmind, Efima, Innofactor and CGI.
- In the development of digital services, the competitive field is very fragmented, and players include, for example, Vincit, Gofore, Siili and Reaktor.
- The competitors of the Digia Envision product are Fellowmind, Visma, CGI, as well as Microsoft Business Central and Oracle's NetSuite, which are included in Digia's own offering.
- Competitors in Microsoft solutions include Fellowmind, Efima, Innofactor and CGI.
- Competitors in the Oracle NetSuite solution include Greenstep and Staria.
- In cloud transformation and services, the company's competitors include Nordcloud, Solita, in addition to large generalists, and a number of smaller players specializing in different areas
- In terms of the ability to deliver comprehensive solutions, many smaller players in the market are developing their offerings in the same direction as Digia, and the competitive landscape is evolving rapidly.

Company description and business model 6/8

The business is divided into the modernization of existing customers' systems and new customer relationships, which may involve replacing the entire platform. In addition, business is partly still driven by the cloud transition, but especially by the renewal to function as a platform for new digitalization solutions, in which case Digia's other service areas are increasingly involved in the delivery of these systems. In the coming years, the segment will focus on; 1) how to bring data and analytics into the customer's business, 2) the utilization of robotics and AI in customer processes, 3) acquiring larger customers, 4) utilizing scaling potential and 5) utilizing the strong demand in the defense sector.

Financial Platforms

The Digia Financial Platforms area is aimed at fund management companies, asset managers, stockbrokers, banks and other companies offering financing. The solutions are mainly based on the company's own products. The business area employs around 100 people, mainly in Helsinki and Stockholm. This solution area is somewhat detached from the company's other offerings, and the synergies that can be achieved/linked to it are limited. We estimate that this business with its products could be separated from Digia, but we understand that the company is still investing in the growth of this business as part of the group.

Digia has a long history in the financial sector, and over the years the company has developed its own established customer base in Finland for the area. The company offers its own Digia Financial Systems (DiFS) product family to financial operators. The company also offers back office services to its customers. The company has a strong market position, especially among small and medium-sized customers in the investment service segment and in insurance customers. We understand that the service area currently has spare capacity, but the launch of two delayed major projects should compensate for this.

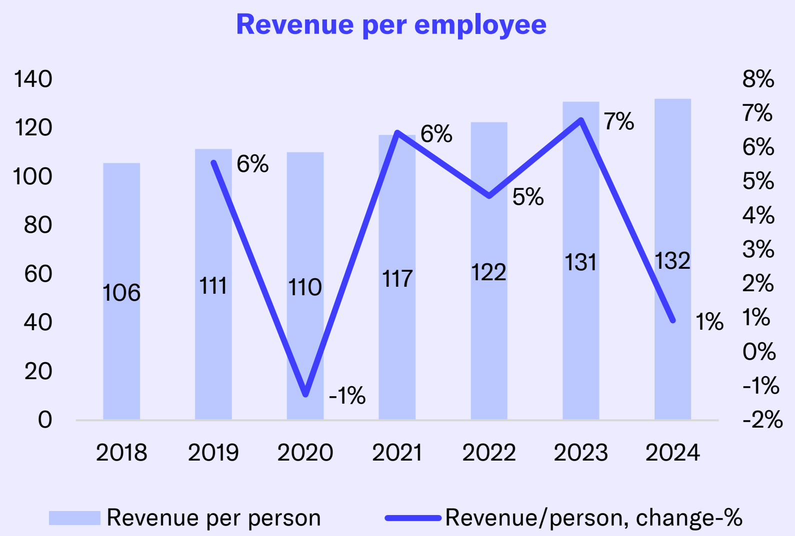
The DiFS product family includes solutions for the needs of, among others, fund management companies, investment service companies, asset managers, securities brokers, institutions managing their own portfolios and banks. The product is constantly being developed, but mainly according to customer needs. Like Digia Envision, this product generates good and predictable cash flow, but its growth potential is quite limited. Back office services relate to fund management, valuation and securities portfolio maintenance. Back office services are continuous services. In these, the company also utilizes its own systems. Digia believes that the service can be further scaled, which is why it is seeking growth especially from small and medium-sized back office functions.

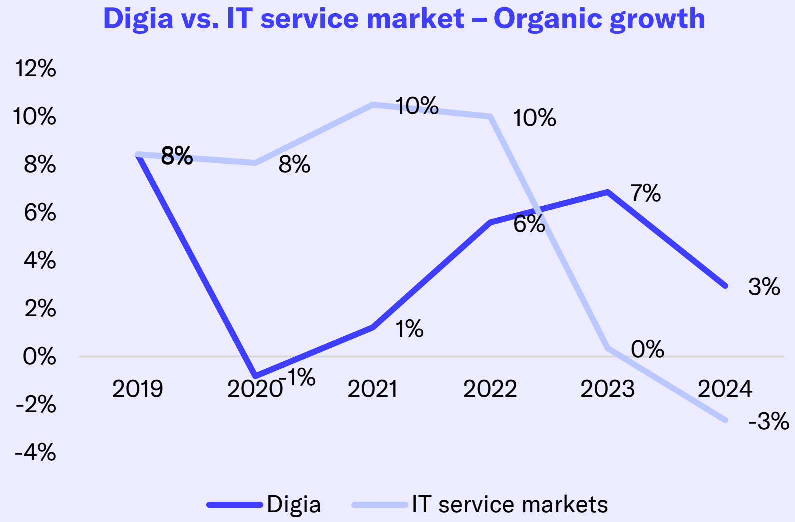
The segment's focus in the coming years will continue to be on increasing the number of customers. In terms of the service offering, the company also sees potential in expanding into consulting, which the company is currently still exploring.

Synergies and competitive advantage of service areas

The synergies between Digia's various service areas are related to selling a comprehensive lifecycle offering, which can start from either front-end (customer interface) or back-end (back-end systems) solutions. In addition, shared services enable resources to be allocated across service area boundaries. During the current strategy period, one of the main themes is precisely to achieve synergies through cross-selling.

According to the company, an increasing number of customer relationships involve several of Digia's service areas, which helps both in expanding customer relationships and in acquiring new customers. In the big picture, however, there is still good and exploitable potential in the synergies of the different service areas.





Company description and business model 7/8

In our view, individual service areas have previously been and continue to be a competitive advantage. However, a broad service offering is now also clearly a competitive advantage, as we expected earlier. This is reflected in competitive tendering wins, as several customers are concentrating their suppliers. In addition, Digia has grown organically faster than the IT service market in recent years, whereas before that, growth was slower than the sector.

The strength of Digia's mainly offering-driven model is the concentration of top expertise around offerings and the efficiency of resourcing. The weakness of the model compared to a customer-oriented organization model is that the operations are not driven by the customer in the same way.

In our opinion, revenue per employee is a good indicator, especially for Digia, in terms of synergies and scalability. In our view, the metric reflects the traditional sensitivity to the invoicing rate and changes in customer prices, but in Digia's case also the growth of the product business and the scaling this enables. We understand that subcontracting has been relatively stable for some time and therefore does not significantly impair the parameter's usability.

The role of project business has grown for a change

One of the strengths of Digia's business model, compared to its peers, is the large relative share of continuous services (50% of revenue in 2024). However, the share of revenue from continuous services has decreased, while it has been at the same level in absolute terms in recent years. The company’s longer-term goal is to further increase the share of service business of revenue with service agreements following the project phase, covering the entire life cycle of the service, and by monitoring applications not built by Digia. Recurring contracts provide a cushion, valuable predictability and continuity to business, especially in the current market uncertainty.

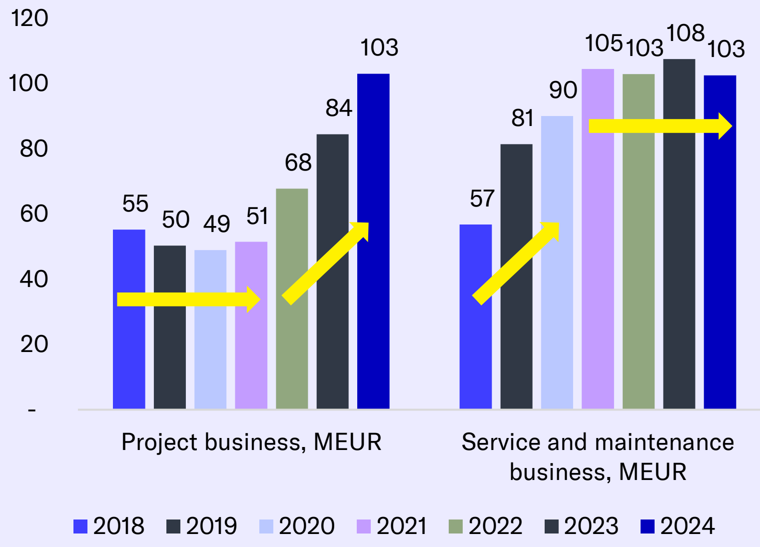
Digia's project business drove growth more strongly in 2016-2017, while in 2018-2021 growth was driven by service and maintenance business in line with longer-term goals. Now again, in 2022-2024, growth has been purely driven by project business.

Digia has a broad customer base and improved customer satisfaction

Since 2016, Digia has been developing its offering from a portfolio perspective towards a stronger overall offering. This is driven by customers' demand for an agile player that can deliver a broader solution and help the customer solve the demanding challenges related to the digitalization disruption instead of just providing pinpoint solution deliveries. A broad service offering is also key to a strategic partnership with the customer, which in turn brings continuity to the supplier's (Digia) business.

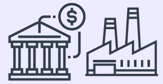
For Digia's total offering, the customer size is typically between 100-1000 MEUR. The optimal customer size depends somewhat on the service area, but the company's strengths lie in public administration and companies that are too small for the largest generalists and, conversely, too large for smaller solution providers. In individual offering areas, the company may be in full competition against generalists when competing for Finland's largest companies and customers. Typically, Digia's customers do not have much in-house expertise to manage the overall solutions, which is why they need a strong supplier to manage the entire procurement chain.

Development of revenue structure



Customer segments

Main focus in Finland, deliveries internationally, especially in Sweden and Poland



Special expertise in selected sectors (e.g. finance, industry, wholesale, defense industry and public administration)

Competitive advantage in medium-sized and large companies

Company description and business model 8/8

In the big picture, Digia's customer base is relatively diversified in terms of both customer verticals and size. In addition, the company has a strong position in the stable and predictable public sector. These factors are positive in the current market uncertainty.

The company's customer satisfaction has also improved by +18% in 2024 compared to 2022. The company's target for the strategy period is a 25% improvement compared to 2022. This is a good improvement, but customer satisfaction cannot be compared to peers because the company does not provide an absolute figure.

Personnel satisfaction improved

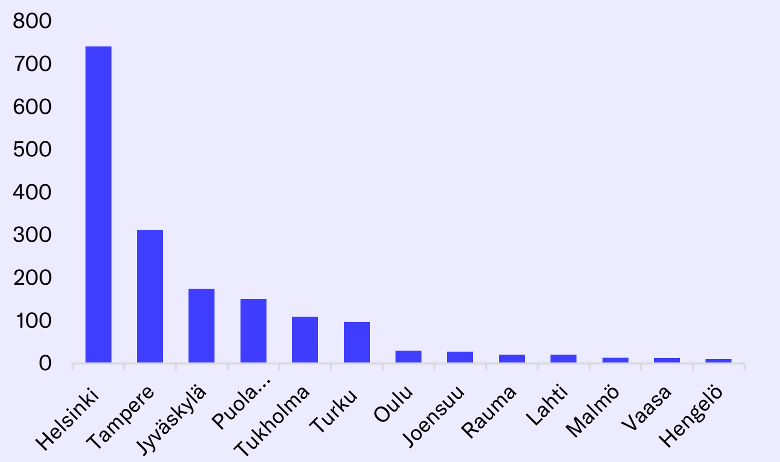
As is typical for IT service companies, Digia's personnel are spread across several cities. This is largely because IT service providers generally need to be close to their customers, and also because cost levels are generally lower outside of large cities.

During Digia's strategy period, the goal is to improve employee satisfaction by 35%. In 2024, this had already improved by 60% compared to 2022. Thus, employee satisfaction has clearly improved. However, as with customer satisfaction, employee satisfaction cannot be compared to peers because the company does not provide an absolute figure.

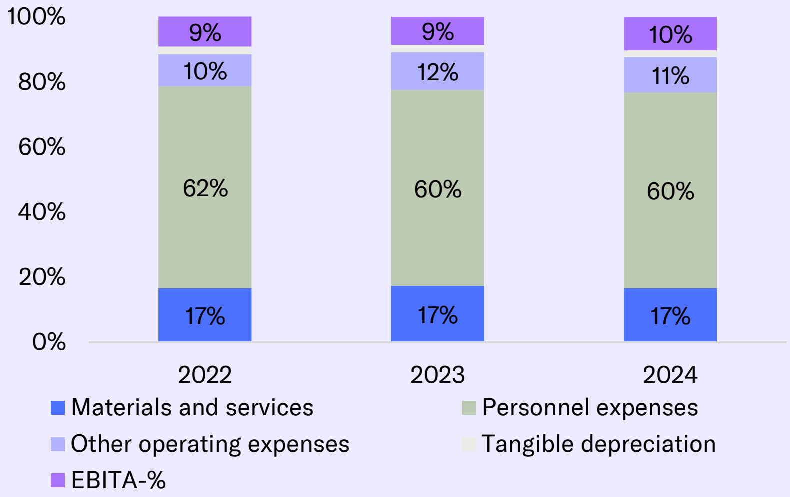
Cost structure

Digia's cost structure reflects that of a typical IT service company. Personnel costs clearly account for the largest portion of expenses, at about 60% of revenue. Other operating expenses account for about 10% or slightly more. Generally, in our view, in order to be among the most profitable in the sector, other operating expenses should be close to or even below 10%, as Digia has been for some time. Materials and services account for approximately 15% of expenses, including subcontracting of about 10 percentage points and license costs of 5 percentage points. Tangible depreciation, i.e., rental expenses in practice, account for some 2% of revenue. In addition, Digia amortizes intangible rights related to acquisitions, the amount of which naturally depends on how many and how large acquisitions the company has made in the past. These expenses do not affect cash flow and currently account for slightly over 1% of Digia's revenue. The company does not capitalize product development costs. The cost ratios of other companies in the sector can be viewed on page 17.

Personnel, 2025e

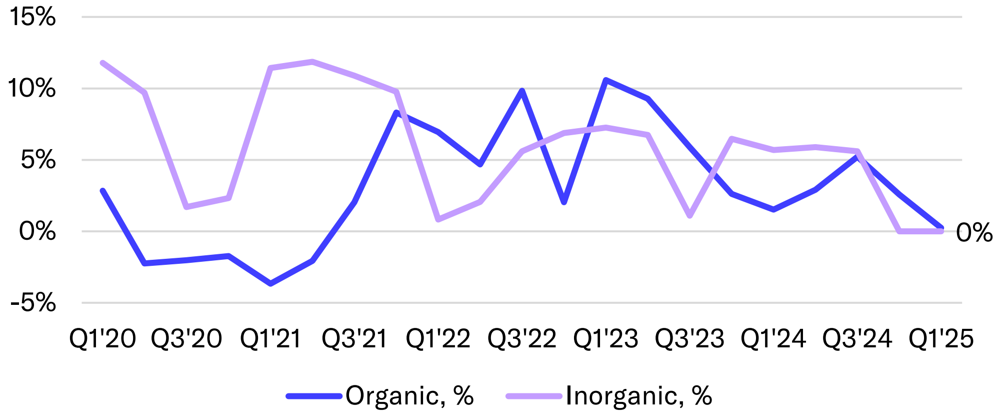


Cost structure, % of revenue

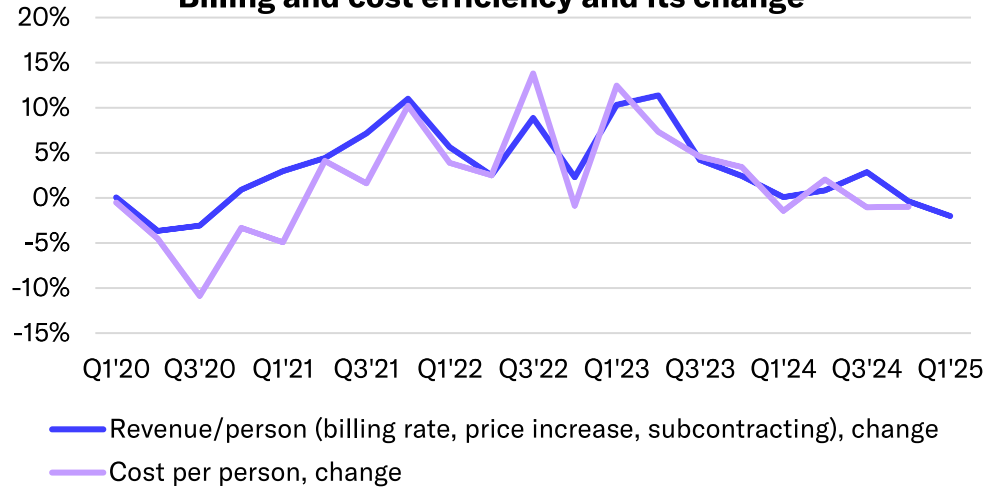


Digia’s key figures

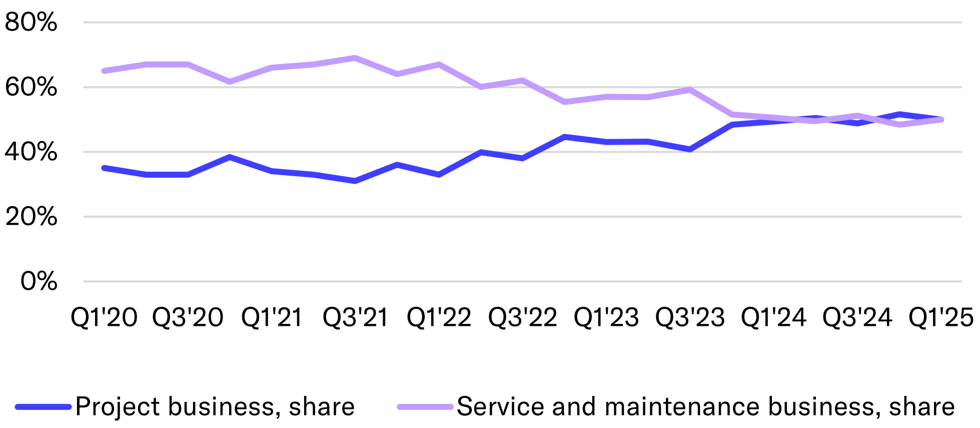
Revenue development-%, organic and inorganic



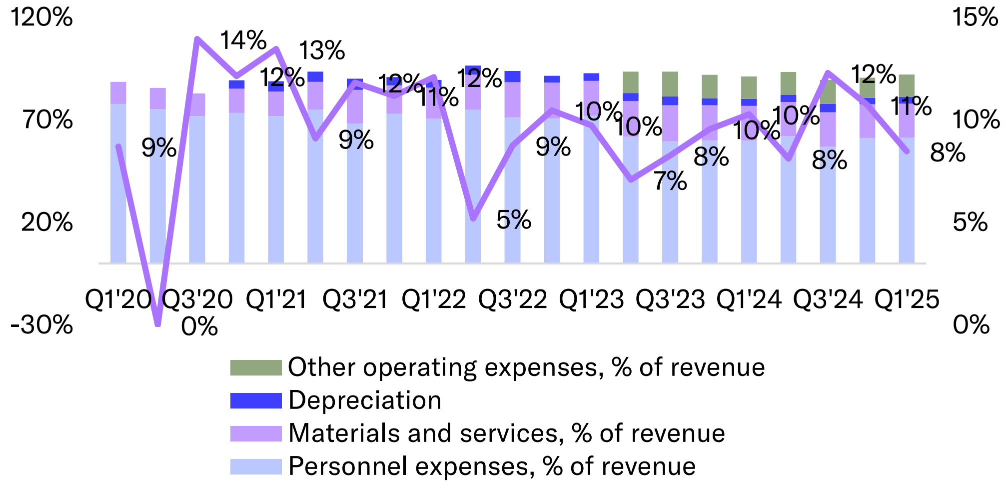
Billing and cost efficiency and its change



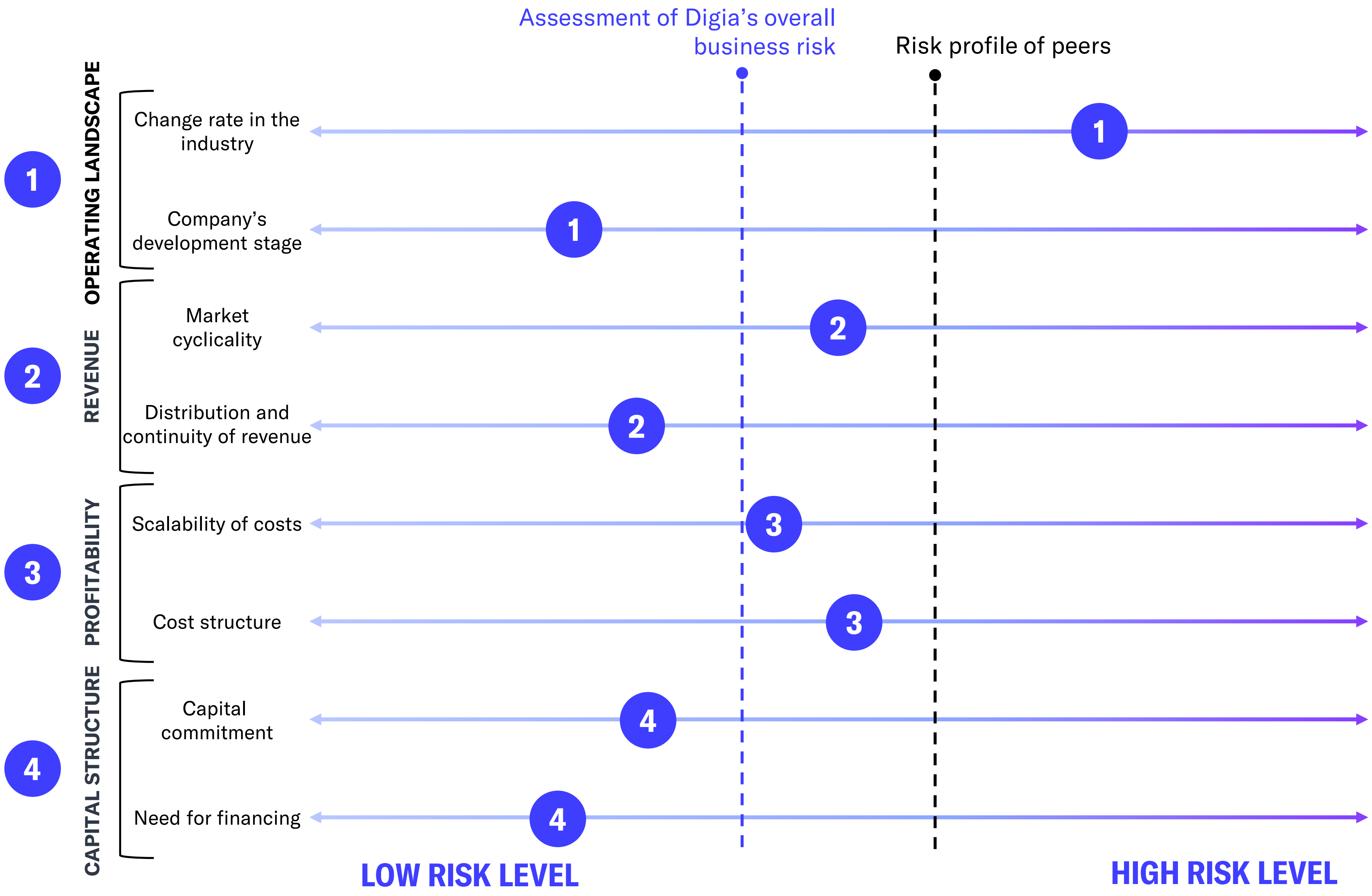
Revenue share-%
Project and service revenue



Cost structure and EBITA-%



Risk profile of the business model



Industry in continuous change as technology develops

Digia is well positioned in the market and the organization is in strong shape. Organic internationalization still requires proof of success.

Activity of IT investments is dependent on the macro economy. Recurring services and the share of the public sector reduce risk.

In our estimation, revenue is well diversified between the public and private sectors. In addition, in the private sector, revenue is diversified across several different industries. 50% recurring revenue.

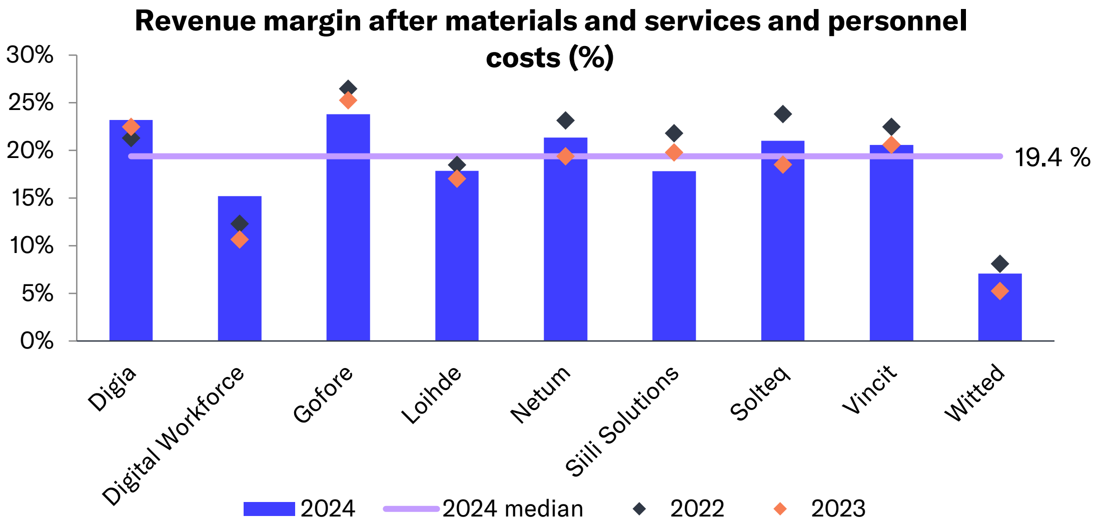
Not all benefits from the investments of the last strategy period have yet been realized. Cost structure scales downward with the subcontracting network (>10% of revenue).

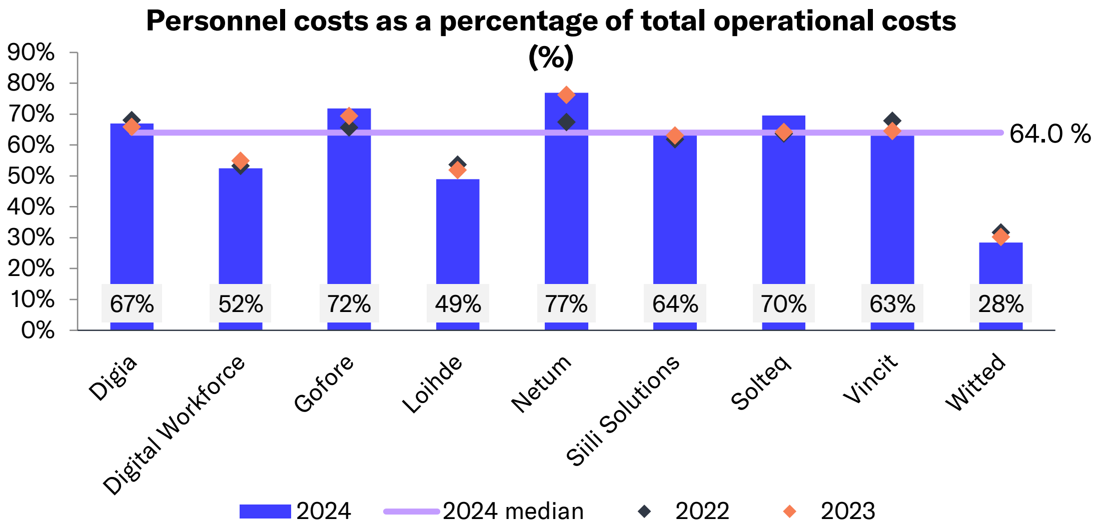
The cost structure is very typical of an IT service company. However, the cost structure is generally relatively fixed in the IT services sector.

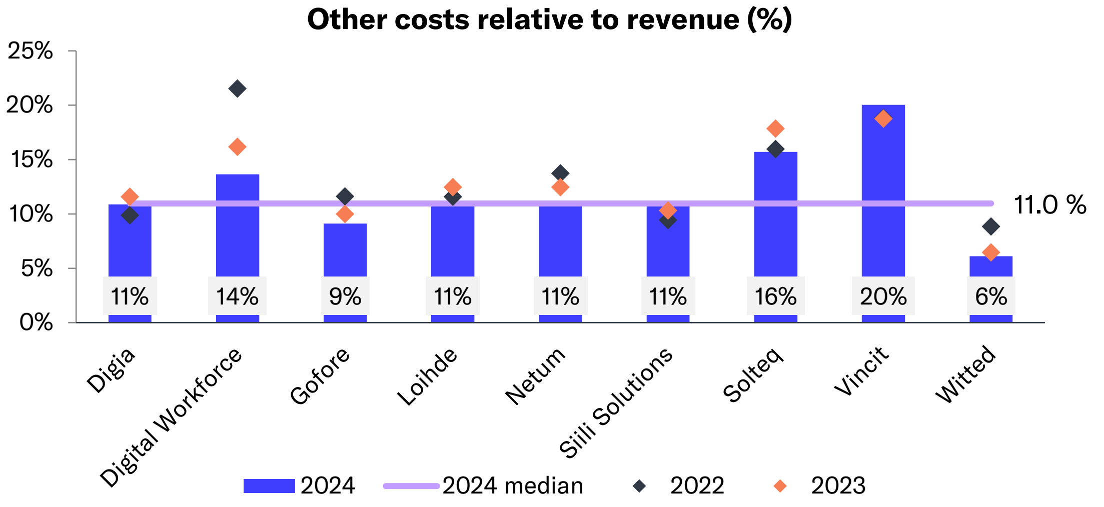
Organic growth ties up capital to a very limited extent, but acquisitions require capital. The company is very active on the M&A front.

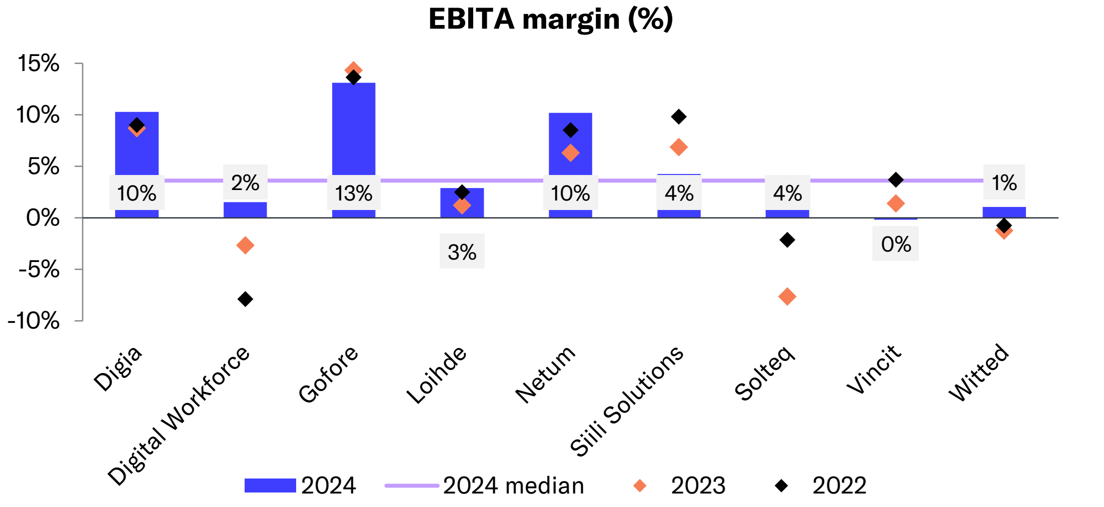
Stable performance and steady and good cash flows. Cash flow is well sufficient to meet the current needs of the business and to repay debt from acquisitions, at an accelerated pace.

Relevant reported indicators for the sector 1/2



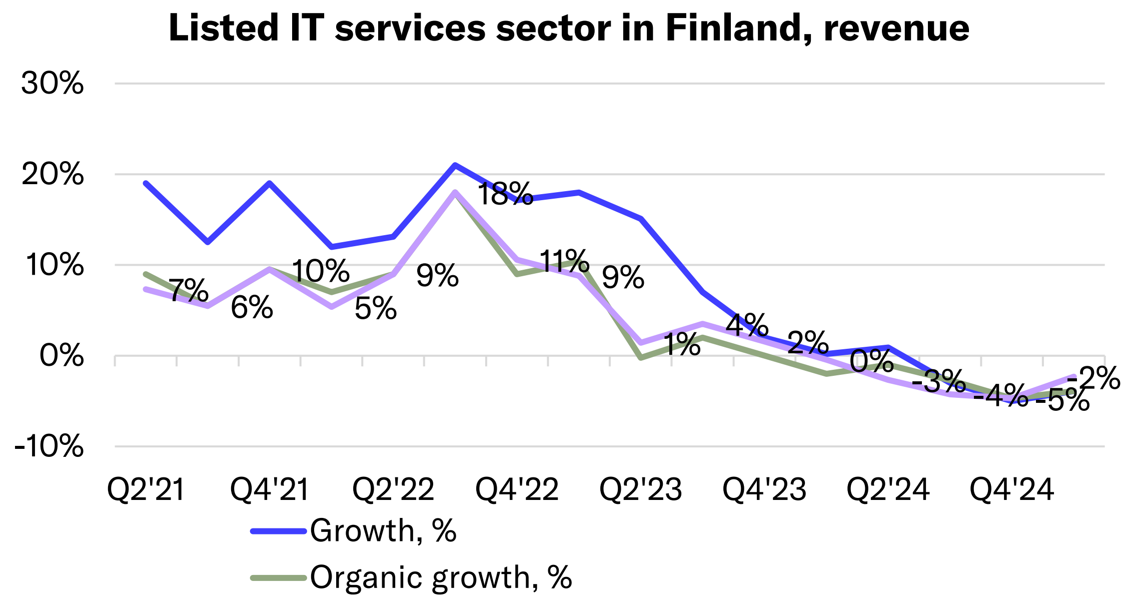


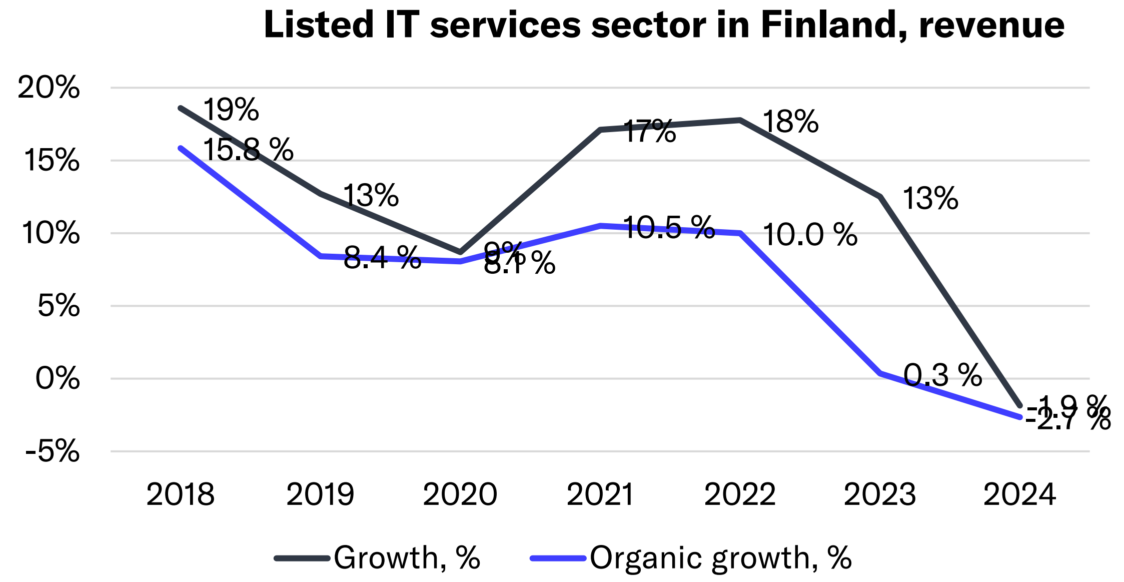


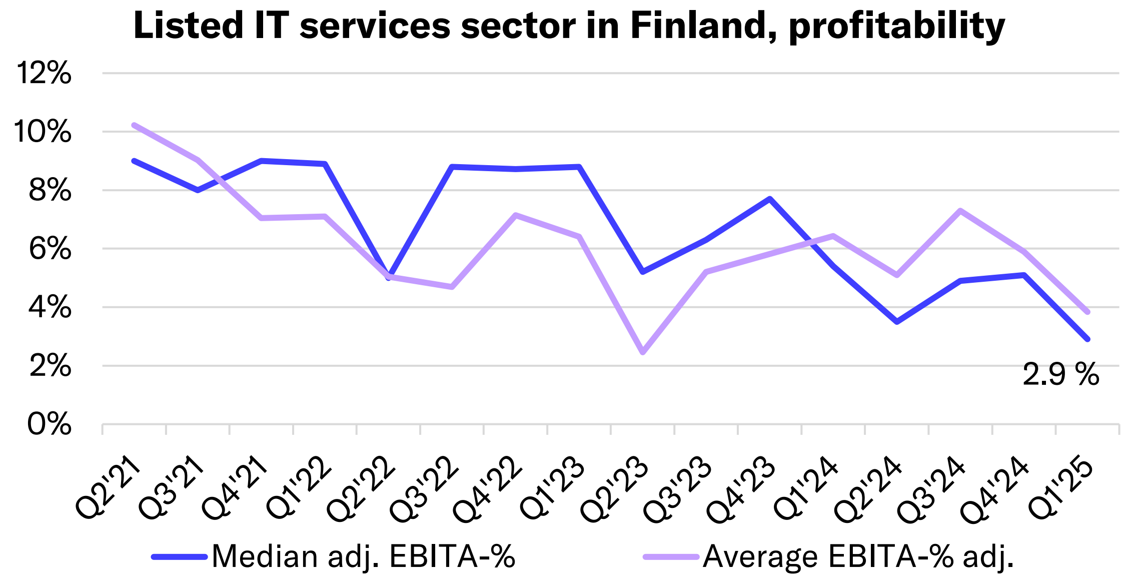


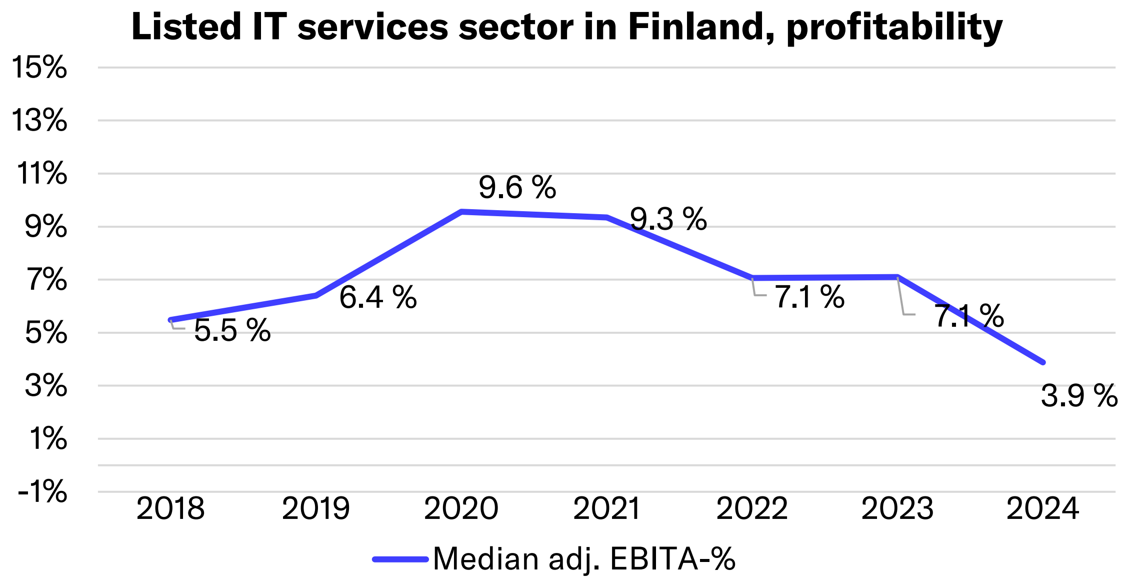
Source: Inderes and the companies

Relevant reported indicators for the sector 2/2









Source: Inderes

IT service market 1/9

A large overall market in the Nordics and Finland

According to Radar, the size of the Nordic (Sweden, Norway, Finland, Denmark) IT service market was just under 28 BNEUR in 2024. Radar has estimated the total Finnish IT market to be over 7 BNEUR. The IT service market accounts for 4.8 billion of this, divided into 2.5 billion in consulting, 0.3 billion in management consulting, 0.6 billion in cloud solutions, and 1.2 billion in outsourcing. By customer, we estimate that this is still approximately 75% to the private sector and 25% to the public sector. We do not believe the market size limits the growth opportunities of the companies we follow in the big picture. In our view, Digia has a well-diversified customer portfolio between public vs. private and further across different industries in the private sector.

The definition of the IT service market and its euro-denominated size continues becoming obscure as the role of IT and technology continues rising from the engine room to the operational core in various industries because of digitalization. The operating field of IT service companies crosses paths with new parallel markets that have not conventionally been considered part of the IT markets. These include, for example, strategy consulting, transformation management and service design.

Market growth driven by digital services

According to various estimates, the conventional service areas are expected to grow by an average of 1-4% p.a. New digital services are expected to grow by 5-10% depending on the sub-area, although their demand is more cyclical, as seen in the drop in demand in 2023-2025. Market growth is slowed down by decreasing demand for conventional infra and older generation software solutions. In addition, conventional IT systems are modernized, creating a rapidly growing area between the two (e.g. SAP cloud transformation).

Radar forecasts the Finnish IT market to grow by 1.7% annually in 2024 and 2025 as a whole, and services by 2.4% annually. Within the IT service market, growth is driven by cloud solutions (2021-25e ~10% annually) and consulting (3.3%), while the volume of outsourcing services is flat (+0.1%). It should also be noted that according to Radar, consulting decreased by 16% in 2020, while the IT service companies listed on Nasdaq Helsinki grew organically by 8% in 2020 (2021-22 10%). Faster growth than estimated by Radar indicates that the companies we follow have positioned themselves in faster-growing service areas and are more competitive/have a more critical supplier role than the average company.

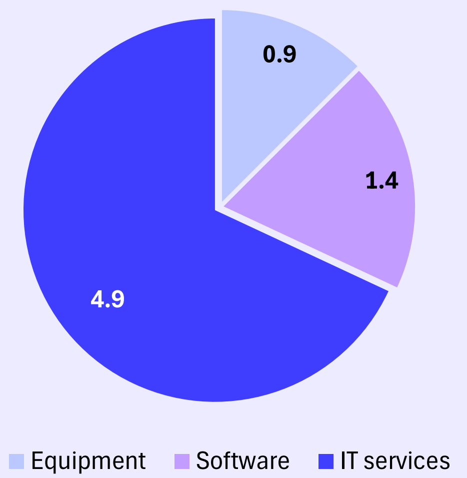
By service area, the parts that are growing faster than the market are, according to our research, cloud services, transformation management, data & analytics, automation and AI solutions. Cybersecurity services have been a hot growth area in recent years, but many players face challenges in making their businesses profitable.

With its broad offering, Digia is well positioned for the trends in the IT market. This is reflected in the fact that the company has been one of the best performing companies in Finland in recent years, as measured by the *Rule of 20* (organic growth + EBITA-%).

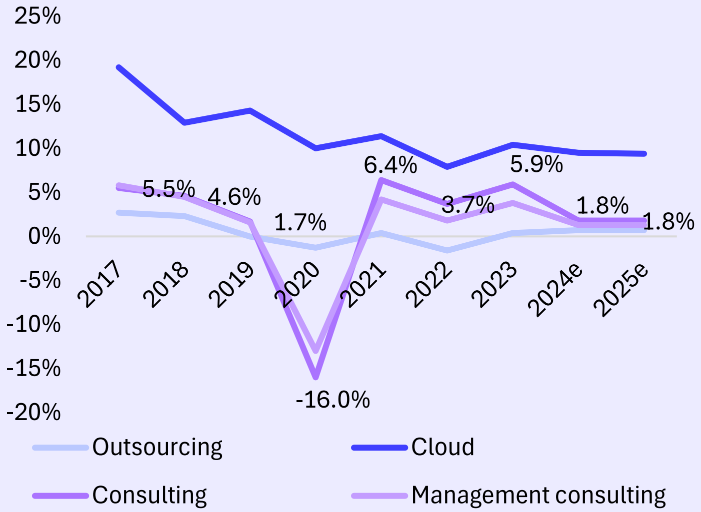
In the short term, there is uncertainty in the market

We expect the IT services sector's performance to improve slightly towards the end of 2025. However, the demand environment remains watchful and cautious. The trend of digitalization is not stopping and there are still areas of faster growth when the development of critical activities cannot be stopped. Our main concern in the sector is the geopolitical uncertainty caused by the trade war and wars, as well as the continued fierce price competition in the IT services market, especially in the public sector.

Distribution of the Finnish IT market in 2024 (BNEUR)



Finnish IT service market by service area, change-%



Source: Radar Nordic Outlook 2024 (9/24) and Inderes

IT service market 2/9

We forecast the organic revenue of listed Finnish IT service companies to decrease by 1%. In 2019-22, the organic growth of the companies we follow averaged 9% annually, and in 2023-24, it averaged -1%.

There is less variation in revenue within the peer group, but a large variation in profitability. The expected gradual strengthening of the general economic development in Finland and Europe and the decline in interest rates provide some light at the end of the tunnel and, in our opinion, create the conditions for a gradually improving demand outlook in 2025. We expect the private sector to turn towards better (there were cautiously positive comments on this in Q1) before the public sector. However, the timing and magnitude of the recovery in demand are difficult to estimate, which keeps uncertainty elevated. At the sector level, we forecast revenue (y/y) to return to growth in H2'25.

The market's long-term growth prospects remain good

The digitalization of society requires a huge number of hands to build, integrate and maintain new applications, which means that the long-term demand fundamentals of IT consulting companies are strong. Therefore, IT service companies offer investors a good opportunity to invest in the digitalization trend with the more limited risk profile of the service business. We believe that the market can still be expected to grow faster than GDP in the long term.

However, the market is cyclical, and the volume of IT services that companies buy externally can also decline and price competition intensify, as in the weaker economic situation in 2022-24. In the boom years, the shortage of skilled workers partly supported the growth of IT service companies, as customers were unable to recruit and had to buy more services than they wanted. In addition, it is important to note that in the rapidly changing IT services sector, driven by technological advancements, new growth areas are constantly emerging, while previous growth areas almost inevitably turn into declining areas at some point.

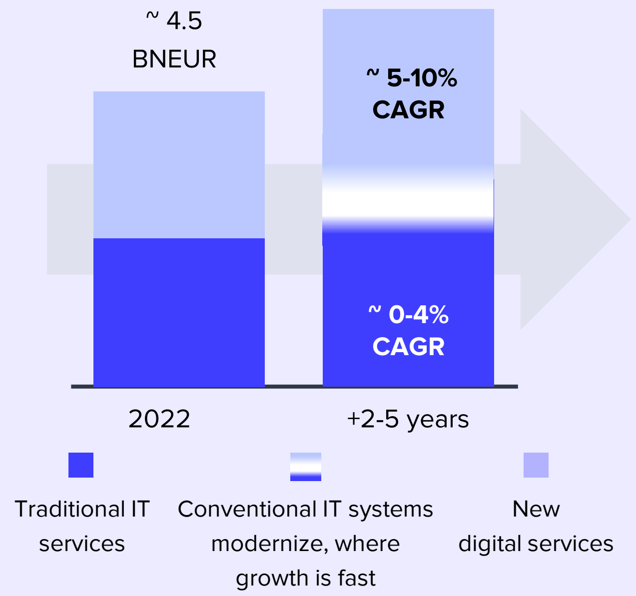
Changing nature of IT investments divide the market

The change in the IT service market over the last 10 years or so can be illustrated in a simplified way by dividing the market into rapidly growing new digital services and declining traditional software development. The market revolution created strong growth potential for many original players of the new era (e.g. Futurice, Solita, Reaktor, Siili, Gofore and Vincit) that have profiled as developers of new digital services. Dividing the market in two is, however, becoming less relevant, as new digital services cannot be discussed separately from the core business systems, and, for example, we estimate that the clearest growth phase of the rapidly growing market for customized software development is now behind us.

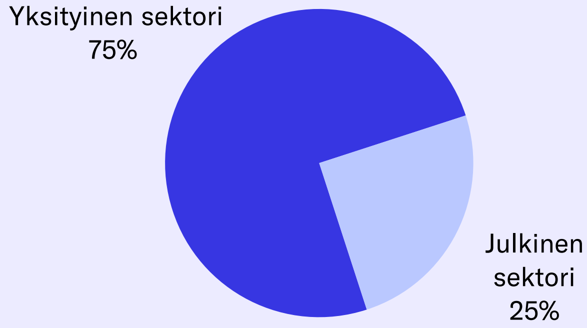
A clear trend on the market has in recent years been that IT purchases become more serious as the customer organizations have realized that you cannot get a short cut to digitalization by buying digital applications bypassing data administration. Organizations' established data systems will not disappear, but they must be modernized to work as platforms for new digital services. IT investments are directed at new functionalities that are built with interface solutions on top of existing systems.

Correspondingly, this trend has restored competitive advantage to more conventional players, while many, primarily digital service developers that have succeeded mainly by acquiring talent, have been forced to reassess their strategies.

Finnish IT service market and growth outlook



Market breakdown by sector



Source: Radar Nordic Outlook 2024 (9/24) and Inderes

IT service market 3/9

As a result of increasing digital maturity in customer organizations, they have also become more demanding buyers and active in building their own software development teams. We see this trend as favorable for Digia.

The IT service market has undergone a considerable change over the past decade. Over the coming 10 years the change rate on the market will accelerate further with the rise of AI and the complexity of technology, and due to rapid development, it will become harder for companies to predict change. That is why we believe that the ability to react and change is a very important factor in competitiveness.

Three different market areas

We have divided the IT service markets into three sections as follows:

Market for new digital services, that includes development of new digital services (design, data & analytics, tailored software development etc.). This has been the strongest growing area on the market that was practically born only in 2010s. Customized software development was a strong growth area in the past, but demand has now clearly decreased. Well-known players in the digital services market include Reaktor, Futurice, Nitor, Siili, Vincit and Gofore, among others, and large IT generalists have also started investing in this area. The market is characterized by a low entry barrier.

Market for background IT systems and enterprise software, that includes ERP extensively and related systems covering primarily delivery, tailoring, integration and maintenance of firmware. Known players on this market in Finland include, e.g., Innofactor, Enfo, Solteq, Digia, Sofigate, Fellowmind, Vincit (after Bilot merger) and in particular IT generalists like Tietoevry and CGI. Market growth has been slow in this area and a high threshold to enter the market is typical. However, the modernization of old systems and the strong growth of many new software solutions have also created rapidly growing areas in the market.

Market for IT platforms, that mainly covers infrastructure services (local, hybrid and cloud) and ICT outsourcing. This market has mainly been the strength of IT generalists (like Tietoevry, Fujitsu) and the threshold for entering the market is high because the market has required economies of scale and investments. As a result of the cloud revolution, a redistribution of the market is ongoing that has generated new quickly growing players (like Nordcloud) and many medium-sized IT consultants (like Gofore, Siili and Enfo) are also entering the field. This market has rapidly shrinking (local infra) and drastically growing (cloud platforms) areas.

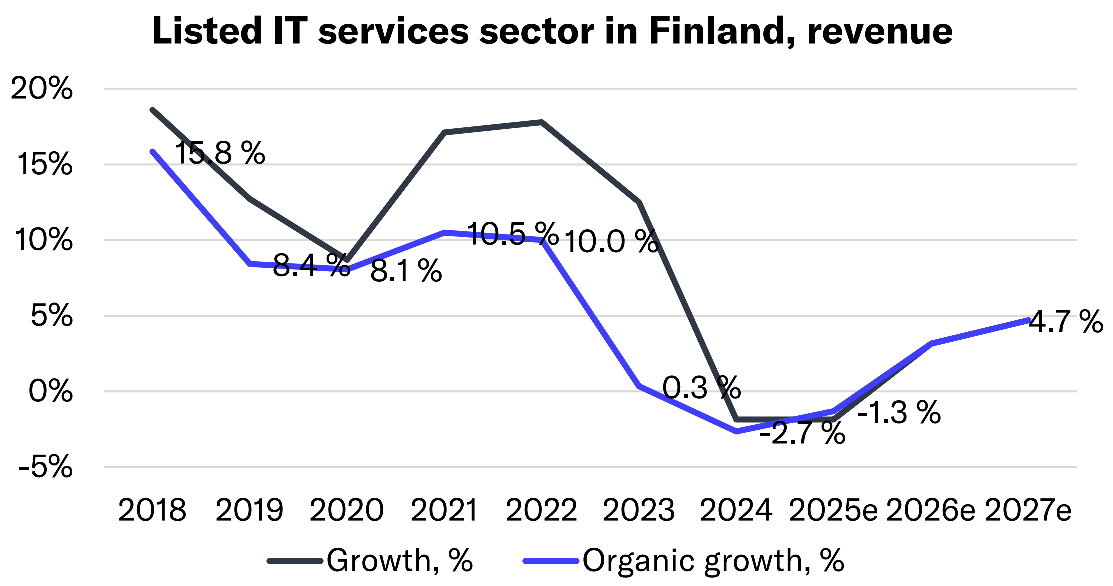
Cross-cutting service areas of these three markets are, for example, data and analytics, AI (growing in importance), integration, cybersecurity and robotic process automation. The development of new digital services is characterized by low entry barriers, while it is harder to acquire background system expertise.

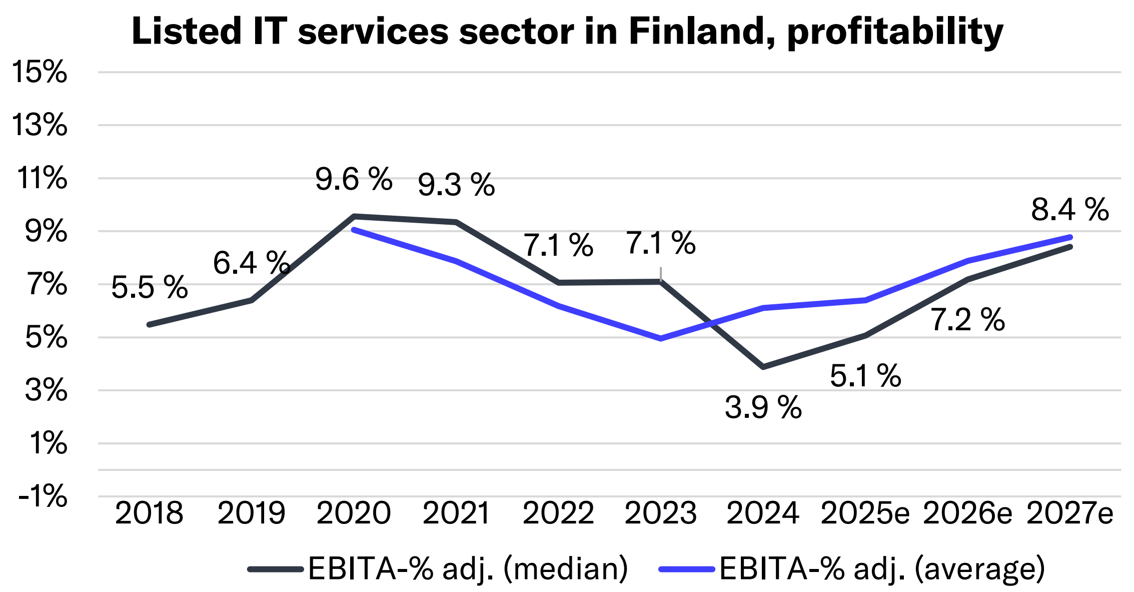
For a long time, the most visible trend on the market has been IT players striving to win over customers already when projects are being planned, as selling one hour of design work has translated into selling multiple hours of software development work. Many players seek a stronger position in the value chain by strengthening their consulting service expertise, in which case the IT supplier manages the projects and resources and does not merely deliver them. This allows suppliers to get deeper into the customer and become a strategic partner. However, this takes time. This trend has been visible as several acquisitions on the market. In addition, many IT consultants try to expand into strategy level consulting, granted with varying degrees of success.

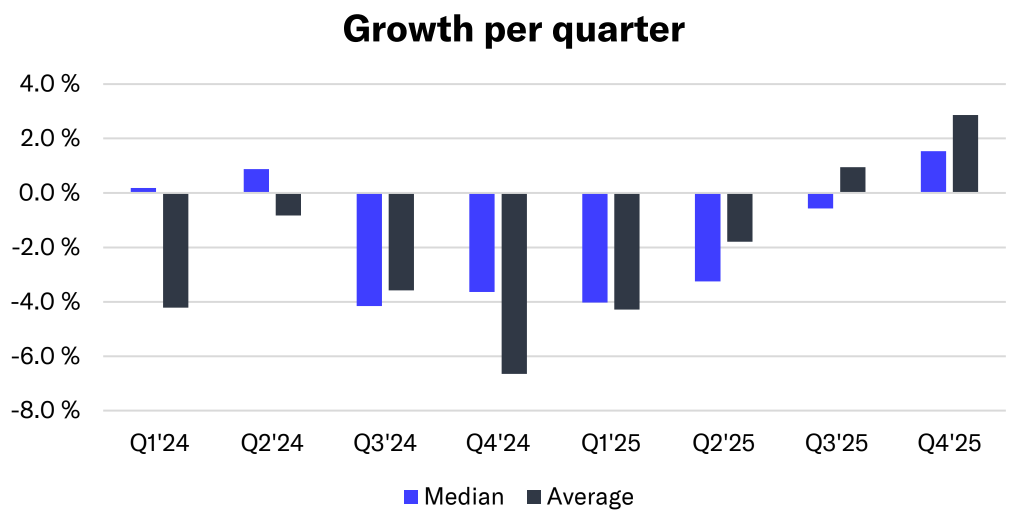
Another clear trend for the players in this sector is the life cycle approach, as many new players now try to build the ability to offer software maintenance. Customers' purchases continue to shift from software development projects towards continuous software development, which changes the nature of the markets. This trend has strengthened recently as suppliers have become more centralized, highlighting strong expertise and customer relationships, a comprehensive service offering and maintenance strength.

Common for the strategies of all medium-sized and large players is also a strive towards the position of a more business-critical partner for the customer and, in recent years, a sharpening of industry focuses. The know-how and offering of small software developers does not in this case reach deep enough into the customer's IT systems and processes. This development may accelerate market consolidation. When the market shows weakness, companies with the strongest customer relationships typically perform best, as has been seen in recent years. We believe the Finnish IT service market is more strongly developing in a direction where the paths of conventional and new players cross and the boundary between new and conventional IT continues to blur. A good example of this is the good development of Digia in recent years, where the broad offering, successful expansion to growth areas and backend system capabilities seem to have been a key factor.

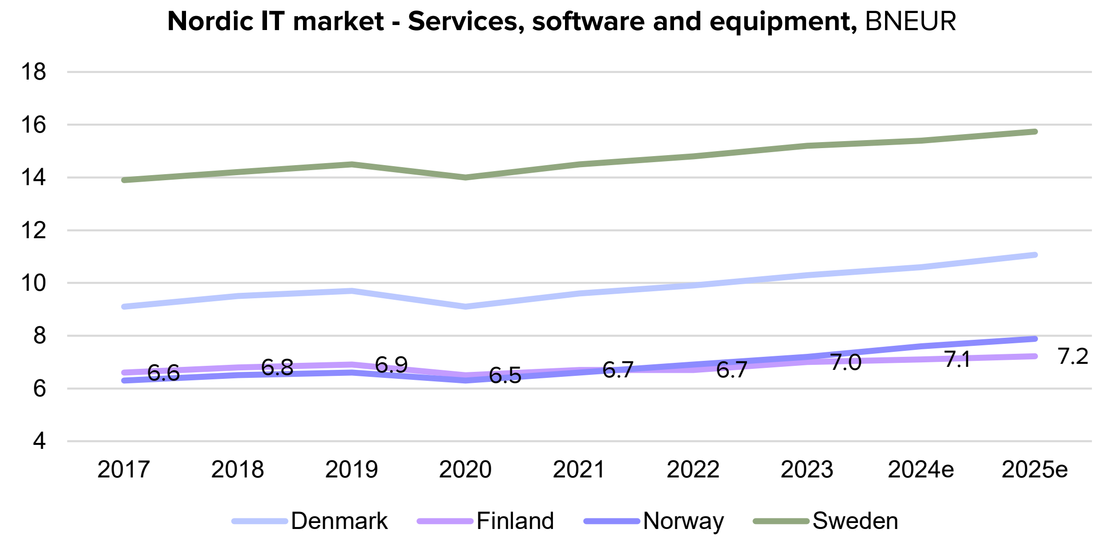
Development and expectations for the listed IT services sector in Finland

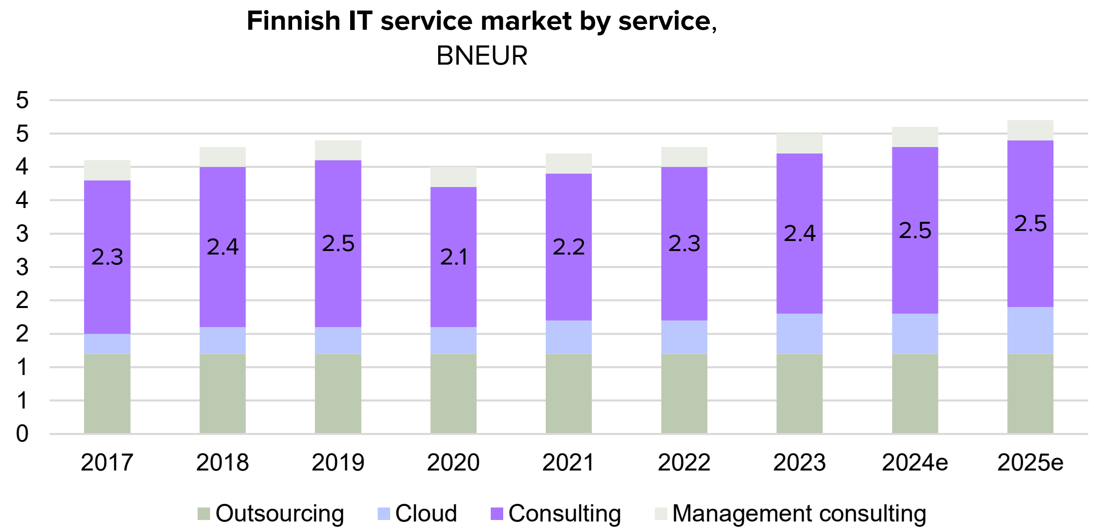


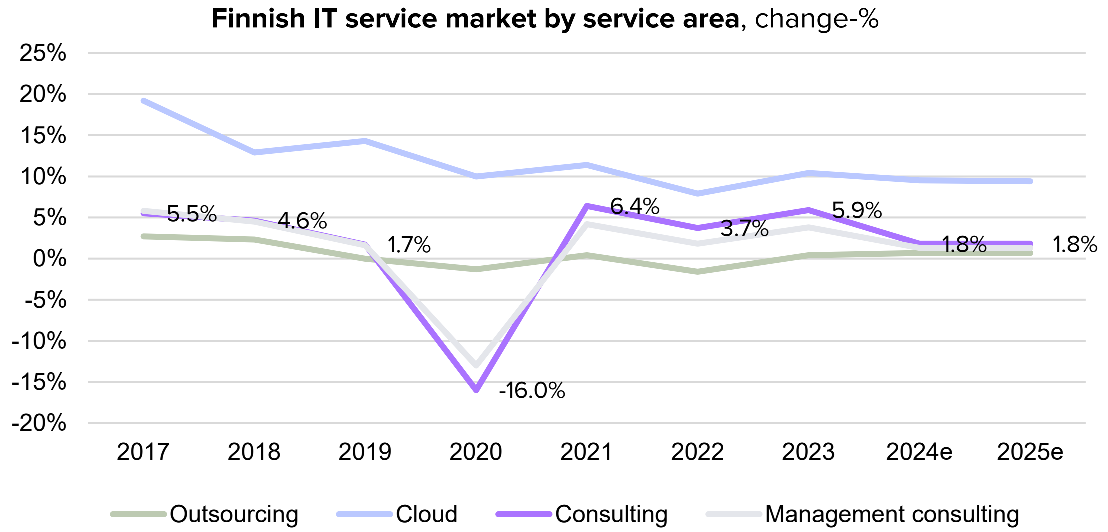




Nordic IT market data

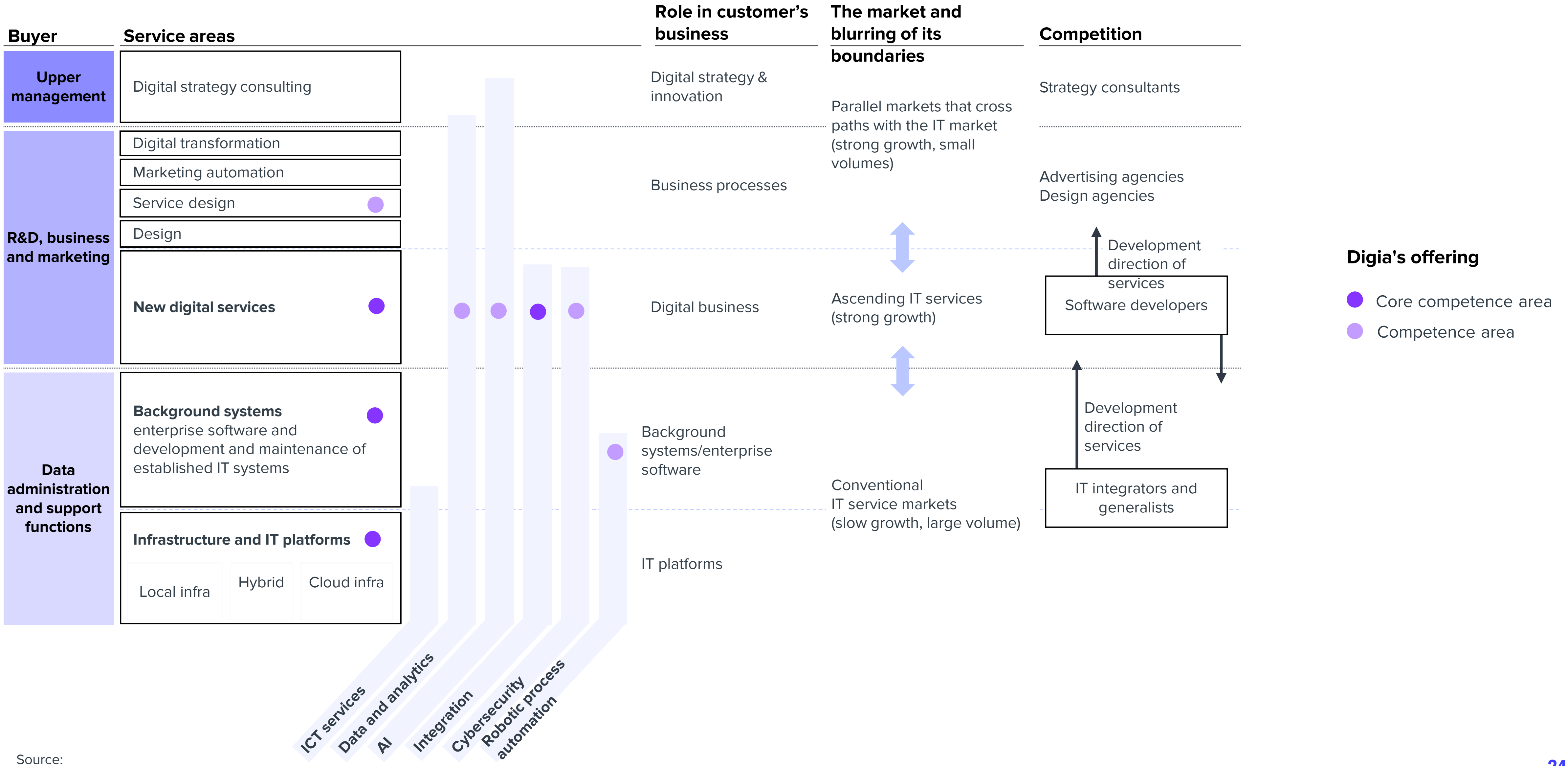






Source: : Radar Nordic Outlook 2024 (9/24)

Division of the IT service market



Source:
Inderes

IT service market 4/9

Background system expertise makes a comeback and one must know how to utilize related data

The strongest demand on IT markets has for years been in developing new digital services. According to our view, the market has, however, in recent years moved to a stage where one must be able to integrate new digital services and especially related data more tightly with the customer's background systems. This is how the full business benefit is derived from new solutions.

Customers also have increasing needs to modernize their background systems because an old ERP system may act as a break for the development of digitalization solutions. Thus, the nature of the ERP market that has suffered from slow growth for a long time will change, and the market is clearly picking up. The importance of integration and data expertise also becomes emphasized. From Digia's perspective, this development has offered a growth opportunity and positioned the company in an interesting position in the market. The company's integration expertise is one of the strongest in the Finnish market and now, due to its capacity in Poland, it is also relevant in Northern Europe. In addition, the company's core expertise lies deep within the background systems.

In background systems and maintenance, the competitive landscape is much more stable, the entry barrier is higher and customer relationship are long lasting. It is also difficult to build the capabilities required for background systems. This trend towards a life cycle approach is one challenge for pure digital service developers in the competition with generalists.

Trends in organizations' IT purchases

According to our view, the digitalization revolution will drive customers' purchasing behavior towards the following trends, where there are both winners and losers:

The artificial intelligence (AI) market has been growing rapidly in recent years. Recently, the market has made rapid leaps, driven by the very rapid development of generative AI, and almost all players are striving to utilize AI. In the first wave, productivity will improve (AI-assisted development), but it is still uncertain how the benefit will be distributed between the supplier and the customer. In the second wave there will be new business opportunities. AI projects are already being carried out, but the volume is still small and a large proportion do not go into production. In the coming years, it will become clearer what AI will affect and what it will not. Overall, however, the impact is likely to be significant over a period of several years. In our IT service provider view, it is difficult to create a sustainable clear competitive advantage with AI in normal development, and any differences will even out over time. However, in our view, those companies that are able to recruit top AI talent and profile themselves in this sector at an early stage can create a competitive advantage for themselves.

Data and analytics is one of the hottest trends on the market. High-quality data has become a strategic competitive factor in several industries and a prerequisite for AI solutions. In recent years, many players, such as Digia, have brought it to the core of their strategies. The challenge for customers is to combine data from silo-like data administration throughout the organization. The winners are IT companies that are able to combine data platform expertise, analytics, AI and business understanding. This is a critical capability, and the losers will again be those who cannot build it. Digia has also strengthened this expertise through acquisitions.

Cybersecurity and safety clients still represent a relatively small portion of IT service providers' offerings, but like data, it is becoming an increasingly strong competitive factor. AI development also provides tailwind for cybersecurity demand. Buyers focus increasingly on cybersecurity, and a lack of this expertise is a clear reputation risk for suppliers. The geopolitical situation has further increased demand. Many companies in the sector have invested and are investing in their cybersecurity capabilities, but the desired demand has not materialized and billing rates are still widely low. Digia has invested in cybersecurity for years and is relatively strong in this area. Especially in the defense industry, the company seems to have a competitive advantage due to its long history, and the growth prospects there have only strengthened. However, competition in the defense industry has increased due to the good growth prospects.

Automation and robotic process automation are also becoming more important as service areas. Automation enables increased productivity, flexibility, scalability, and improved quality, as well as a customer experience without large and expensive system projects. Several companies in the sector have developed or acquired this expertise (e.g. Digital Workforce is an industry pioneer).

Suppliers are being centralized: Long-term strategic partners, companies with industry expertise, strong critical capabilities, and those with a broad service offering are strong in this environment. So, the winners will get a larger share of the customer's purchases in the future. The losers are suppliers performing less critical functions, small suppliers and subcontractors. We believe that consolidation also causes price pressure, at least in the short term, but the winners of consolidation will see volumes increase. In our view, Digia has been among the winners in this respect, thanks to its broad offering and strong customer relationships.

IT service market 5/9

An industry focus has become central to the strategy of several companies in recent years. It is therefore natural that it is typically built around existing industries where companies have competitive advantages. Strong industry expertise also makes it easier for the company to become a strategic partner for the customer. This is emphasized when the fiercest competition is not for talent, which increases the demands placed on consultants by clients.

Low-code and No-Code software development has become increasingly common in recent years, and rapid AI development has further supported this trend. The development is disrupting conventional "easier" software development, as software development can be done with a small amount of code or without any code at all. It contributes to technological development, which companies have to adapt to and learn to utilize, which enables spending time on developing more challenging and better solutions.

The competitive advantages of **a broad service offering** are currently clearly strengthening. As the customer's complexity grows, it requires a broader IT service provider. The need for traditional pure resource renters will decrease as AI and in-house experts perform the software development work of resource renters.

Building **subcontracting networks** was one of the key trends when the competition for experts was high. With the fiercest competition for talent having subsided, the importance of subcontracting has decreased slightly. However, there is still a need for critical expertise that is difficult to recruit, which means that the role of subcontracting is still relevant. In addition, it provides valuable flexibility in capacity. Digia has a large subcontracting network that the company uses and develops continuously.

Building **nearshore** capabilities has been a clear trend in recent years. The normalization of telecommuting during the COVID pandemic has enabled even wider use of this. However, the cost level (wages) in nearshore countries has also increased but is still lagging behind the Nordic countries.

The in-house trend has continued to grow as companies' digital maturity has increased and the competition for talent has eased. Digitally capable customers want to lead and keep the development of business-critical IT systems for their value creation under their own control. However, this trend fluctuates, depending on the availability of experts and the investment cycles of customer organizations.

User orientation and the customer experience continue growing. Important areas include, e.g., digital service design, design and customer experience. Know-how in these areas will become the biggest competitive factor when selecting IT suppliers. Creative, design-centered players have been the winners.

The volumes of many hype terms are still small, but the situation may change. The volume of services related to the most visible terms (VR, AR, IoT, etc.) is still small on a sectoral level. These are, however, likely to become considerable service areas over the next five years.

Innovative development projects have decreased dramatically due to more expensive financing. More efficiency-enhancing and business-critical projects are now being carried out.

The cloud revolution is still a trend, although the strongest transition is starting to be behind us. IT operations are still being moved to the cloud, as it is often cost-effective, flexible, and a prerequisite for new digital business models. Almost all IT service companies have some level of cloud expertise, but the most successful are those with strong expertise in cloud technologies. The biggest cloud transformation is almost over in the Nordic countries and now we are moving to continuous cloud service/maintenance.

Customer organizations becoming silo-like will be a challenge for IT company sales. In addition to data administration, the IT buyer is increasingly marketing or product development, but building of a digital business requires cooperation between these areas and the ability to manage the whole. Players that manage large entities and who can address the customer’s management and marketing are the winners.

The importance of **cheaper offshore resources** as a competitive factor diminishes as it is hard to generate new digital services reliably, fast enough and cost efficiently with offshore resources. Software robotics and AI weaken the competitive advantage based on low-cost labor. In addition, the price advantage of offshore and especially nearshore has decreased with higher wage inflation. Players whose competitive edge has been based on offshore cost efficiency are the losers. However, the price advantage remains. Players who can combine local presence with sufficient cost efficiency by utilizing nearshore/offshore resources are the winners.

Large, multi-year high-risk ERP implementation projects (SAP, Oracle, IBM) are no longer carried out to the same extent and the nature of the market has changed. Established ERP systems will not disappear from customers, but they will remain in maintenance mode by existing IT suppliers, and they will be moved to the cloud. Companies invest in modernizing ERP systems so that they do not become a bottleneck for digitalization projects. Generalists dependent on large projects have been the losers. Smaller players that have integration expertise are the winners.

IT service market 6/9

As business-driven purchasing becomes more common, and also with the advent of AI, IT companies are looking for new value-based and more scalable pricing models to detach their business model from the poorly scalable sale of expert resources. However, this has been historically difficult.

Ownership of customers' IT budgets has largely shifted from the CIO role to the role of business directors and marketing. Players that understand the customer's business and industry are the winners, which is also reflected in the fact that IT suppliers are increasingly focused on specific industries.

Lack of experts, wage inflation and customer prices are the nut to crack in the sector

Regardless of the cycle, the equation is a challenge to solve, but the priorities and the core of the challenge change depending on the cycle. Now, in a weaker customer demand environment, the challenge is falling customer prices and the fact that wage inflation is not equally flexible. In a "normal" market, the shortage of experts and stronger wage inflation than customer price increases is one of the key medium- and long-term challenges for the sector. It becomes increasingly difficult over time to solve this equation through continuously improving efficiency. When it comes to senior talent, companies must be able to distinguish themselves with factors other than salary. Traditionally, these factors have included interesting client projects and a good work environment for one's career development. Companies must also be able to retain employees and minimize attrition. The shortage of experts in the sector can be solved by increasing and building subcontracting networks.

Currently, in the short term, there is no shortage of experts, but they have been readily available in 2022-2025. As the market situation and demand normalize again, we expect the shortage of experts to return, but not as dramatically as before, at least in the medium term. We expect the lack of experts to be more service area-specific in the future (e.g. experienced AI experts now).

Based on discussions we have had with various companies, wage inflation has been between 1% and 6% in 2020-2024 depending on emphasized skills. With the three-year collective agreement for the technology industry, salaries will increase by 2.5%, 2.9% and 2.4% in 2025-2027. In 2025, Tietoevry expects wage inflation to be 4-5% (2022-2024: 4-5%), but it is driven by higher wage inflation in off-shore countries and is thus lower in the Nordic countries. Gofore's wage inflation was 6.1%, 2.9%, 3.6% and 1.0% in 2021-2024. In the IT services sector, Gofore (since the beginning of 2022), Siili, Vincit and Innofactor have their own collective agreements, which partly curb wage inflation. In the shorter term wage inflation is curbed by the slower demand situation, as in a weak economic environment attrition typically decreases, but at the same time high inflation in the recent years creates additional pressure on pay raises. This is partly controlled by using geographically cheaper workforce, which is not, however, a sustainable solution for the problem in the long run. In addition, new employees are now inherently cheaper than those who leave, which curbs wage inflation.

The development of customer prices has for years been 0-2% based on sector comments and thus clearly more modest than wage inflation. However, customer prices have decreased over the past year, in some offering areas even clearly, which creates clear pressure on profitability. Pressure on customer prices is currently the clearest risk we see in the sector. Personnel costs represent roughly two-thirds of costs in the sector and thus comparison with wage inflation is not one-to-one, but the effect is negative for nearly all players in the sector. As a rule of thumb, customer prices are higher in the private sector while contracts in the public sector are conventionally long and thus offer continuity and predictability which enables better management of billable utilization.

In the medium- and long-term, when the competition for talent returns, wider use of junior resources would solve the lack of experts, alleviate wage inflation, and increase efficiency. Nearshoring has also been used as a solution to the shortage of experts and to curb wage inflation when the market was hot. In the medium and long term also those who can generate added value for customers and thus raise customer prices will be winners.

Features we expect from future market winners

The clearest winners on the IT markets in the past ten years have been companies specialized in developing new digital services that have been particularly successful in the competition for talent. The market for digital services has now reached a clearly more mature stage, and the next battle will be strongly about customers as well, whereas previously the battle was largely about experts. In our view, the sector's success factors change and the winners in the next five years will be:

Owners **of strong customer relationships** with a strategic partner role among customers, industry expertise, a strong sales machine and the ability to manage large IT projects and scale operations through a strong subcontractor network. Small players that hold the role of subcontractor and that have mainly focused on talent competition more than on customers are weak when the economic cycle weakens. Continuous and deep customer relationships are Digia's strengths.

IT service market 7/9

Companies with strong integration and background system expertise and the ability to provide maintenance and continuous services. Strong maintenance players are also strong when the market weakens. This is the weakness of many medium-sized digital service developers, while it is a clear strength of Digia.

Data and analytics have become an increasingly critical part of the delivery and an ability to generate added value for the customer and competitive advantage for the supplier. The role of the service area is already important but becoming even more important and also enables wider and more efficient use of AI and machine learning.

Companies that are able to profile themselves as true AI experts. In simplified terms, this means the correct application of AI to the customer's business and the creation of new AI-driven services. In our view, these companies are able to grow more strongly and profitably. Of course, a basic level of AI expertise is essential for everyone to be able to operate in the market in the long term.

Companies capable of continuous renewal. The IT service market is in a constant transformation. Reacting to changes and recognizing them in advance is crucial for one's success. In an accelerating technological change, experts' ability to change also becomes key. Failure in this renewal exercise would directly affect current customer relationships, acquisition of new customers, relative competitive position, and thus long-term value creation potential. We believe that competitiveness in the sector must be built on constant ability to change.

Companies that can build a dynamic organization model that has the agility to react to a rapidly developing market. Many companies in the sector suffer from inefficient, inflexible, hierarchal, and silo-like organization structures, which makes renewal difficult when the market changes.

A capital-light business model and reallocation of strong cash flow

The IT service business is capital light. Organic growth ties up very little capital, and investments (e.g. increasing sales capacity) are typically recorded in the income statement. As a result, the companies' cash flows should be strong. Acquisitions are in practice the only significant form of capital commitment. Reinvesting cash flow productively back into the business has been challenging in the sector in recent years, as finding suitable M&A targets at a reasonable price has been difficult.

In this context, it would be natural to distribute some or even a significant portion of the cash flow as dividends to the owners. Or, as a tax-efficient distribution of profits, buy back own shares, especially when the valuation level of the shares is low. However, the stock liquidity of many of the companies in our coverage is low, which makes significant share buybacks difficult. In this case, the alternative is to distribute the cash as dividends to the owners, as many IT service companies are currently doing.

Acquisitions and consolidation will continue

Consolidation of the IT service sector was active throughout the past decade. The M&A market cooled down with COVID and improved briefly when the pandemic situation eased. After geopolitical risks and interest rates rose, it cooled down again and is still quite cold in Finland. However, we believe many companies in the sector would have preferred to continue more active inorganic growth as well and put strong balance sheets into productive work. However, the differences in opinion between buyers and sellers have been too far apart for several years now.

Sources of competitive advantage in the market

- Strong sales and customer service capabilities are particularly important, as competition has shifted strongly from talent to customers
- Continuous ability to renew
- Recruiting capability
- Life cycle offering
- Hot expert areas:
    - AI
    - Transformation ability
    - Data utilization
    - Cybersecurity
- Agility and speed
- Experts' abilities (CV)

Sources of added value in the market

- Digitalization and digital transformation
- Business approach
- Developing new business
- Data utilization

Source: Inderes

IT service market 8/9

In the big picture, most companies in the sector have a high interest in M&A transactions. Consolidation is driven by the desire to expand the expertise portfolio, geographical expansion, customer acquisition and increase supply capacity.

We believe, however, that most companies in the sector do not have a critical need for acquisitions, and the need is driven by other issues, like strategic objectives. Growth alone is usually a poor reason for acquisitions and, in our view, the greatest benefit will come through the expansion of the expertise portfolio, which will strengthen competitiveness and generate revenue synergies.

In the current market situation, where it is easy to recruit skilled people, it is especially important to find other clear synergy elements. For an acquisition to be successful it is important that strategies and cultures are compatible.

Most companies in the sector have strong balance sheets and almost all have healthy profitable businesses, which further strengthen the balance sheet. The use of own shares in financing acquisitions is also possible, and many companies have also utilized this option. However, the valuation level of several companies is currently low and the use of own shares does not offer the same opportunities for creating shareholder value.

In our view, the use of leverage in acquisitions is still a good option, even though interest rates have risen from the zero-interest rate period, considering the strong balance sheets and strong cash flow of the companies. A moderate leverage would also improve equity efficiency.

Capital investors are also still active and building IT expert houses. Several years ago Triton acquired HiQ that was listed in Sweden In addition, several capital investors have continued consolidating smaller IT service companies. The latest major transaction is the buyout of Innofactor from the stock exchange (CapMan's fund and Innofactor's CEO as buyers). The purchase was made at an EV/S of 0.8x, a P/E of 16x and an EV/EBIT of 13x based on our then-current 2024 estimates.

As the market for digital service development is becoming more mature and the various areas of the IT market become integrated, a broader consolidation is likely as was seen in the Tieto and EVRY, and the KnowIT and Cybercom mergers. We consider the merger of two mid-market players into a stronger entity to challenge large generalists, such as the merger between Bilot and Vincit, a possible and interesting scenario. In our view a merger should have clear revenue synergies and factors that strengthen competitive advantages. We believe there are unlisted players on the Finnish market whose expert focus, geographical presence and customer portfolio would fit in well with listed players. Clear expert areas that in recent years have been acquired to strengthen the offering include consulting, transformation management, data and analytics, and automation expertise utilizing robotics. Cybersecurity expertise is on the wish list, but we suspect that the valuations of the acquisition targets limit transactions. For example, DNV acquired Nixu at about 1.5-1.6x EV/S, which is a high level in a weakened market and with prevailing interest rates. Transactions have also been made due to delivery capacity, but especially at the moment, with the recruitment market being easier, it is difficult to justify implementing arrangements for capacity alone.

Acquisitions are a significant part of Digia's strategy, and the company has modified its offering with 15 acquisitions in the last 9 years. As such, the company has accumulated good experience in executing and integrating transactions. Financial targets have repeatedly indicated new acquisitions, even though there is no clear need for them in terms of offering. This is because the offering is already broad in terms of expertise and geographical coverage.

	Digia	Gofore	Loihde	Netum	Siili	Solteq	Tietoevry	Vincit	Digital Workforce	Witted
Interest in transactions	4	4	3	3	4	4*	4	5	5	4
Need for transactions	2	2	2	2	3	3*	2*	2	4	3
Balance sheet enables acquisitions	3	5	4	2	3	1	3	5	5	3
Interesting acquisition target	3	3	2	3	2	4	1	4	5	2
M&A in 2024-2025	Yes	No	No	No	No**	Sales	Acquisition	No	No	No

1=lowest, 5=highest. *Greater interest in divestments, **minorities acquired

Source: Inderes' estimates

IT service market 9/9

Observations from the latest earnings seasons

Uncertainty in customer demand materialized more broadly in the sector in early 2023 and has clearly affected all companies in the sector. Companies with a high weight of tailored software development and the private sector have suffered more in relative terms. Now, all companies have had to react to the changed situation through change negotiations and by cutting costs. In Q1'25, the decline in revenue slowed, but profitability was at its lowest level in our review period. We forecast revenue to decline by 1% and profitability to improve slightly in 2025.

The Q1 figures for the IT service sector companies can be seen in the table on the right. Key takeaways from recent quarters:

- Organic median growth fell to -3% in 2024 (2023: 0%). In Q1, revenue decreased by 2% adjusted for working days (Q4'24: -5%).
- Average profitability decreased to 6% in 2024. In Q1, profitability in the sector was 4%, which is a very weak level.
- Our Q1'25 summary of the IT service sector can be read here and our Q4'24 summary here. The full Nordic "Rule of 20" comparison can be read here.

Short-term outlook for the sector

The updated 2025 forecasts for the IT services sector companies following the Q1 reports can be seen in the table on the right. Key findings on the short-term outlook:

- The market situation remains uncertain, and this is reflected in the sector as weakening demand and, in particular, price competition. Almost all companies are involved in price competition in at least some competitive biddings. In our view, the continuation or tightening of price competition is the key risk in the sector. The longer price competition has eroded order books, which is why the recovery will be slow.
- The companies that have fared well or satisfactorily in relation to the difficult market situation are those with recurring revenue, long-term contracts, deep and strategic customer relationships, and those operating in the public sector. Generally, those who make business-critical decisions for clients. Companies with a high emphasis on the private sector and customized software development fared the weakest. This dichotomy was reflected in growth last year, but especially in profitability. Now the situation is starting to change slightly, as price competition in the public sector is very tough, and the bottom of private sector demand seems to be behind us.
- Competition has strongly shifted from talent to customers.
- Declining employee turnover, better availability of employees and uncertainty in demand have curbed wage inflation, but not enough to offset price pressure.
- Several companies' cost savings implemented in 2024-2025 support profitability in 2025-2026.
- AI is on everyone's lips, and partly it is of particular interest in this market situation because it can generate cost savings for the customer and also make the work of suppliers more efficient. Overall, the demand related to AI is growing strongly, but it is still a small service area in terms of volume. In the coming years, AI will open up new growth opportunities and become integrated into almost all services. However, we suspect that it is difficult for IT service companies in the big picture to seek a clear and sustainable competitive advantage from AI compared to each other.
- The decline in the number of employees has faded, which indicates that the bottom is near, and we estimate that revenue will turn to growth in Q4'25.
- Trump's tariff rhetoric has increased uncertainty. Possible tariffs would not have much of a direct impact on the IT services sector, but they would have indirect effects through customer caution. There were no impacts yet in Q1, but we will get a better feel for this in Q2.

Q1'25	Growth, %	Organic growth, %	EBITA-% adj. Q1'25	EBITA-% adj. Q1'24
Digia	0%	0%	8.6%	10.3%
Digital Workforce	-4%	-4%	-5.0%	4.2%
Gofore	-6%	-5%	8.0%	13.8%
Loihde	7%	7%	-0.6%	-0.2%
Netum	-2%	-2%	9.7%	12.7%
Siili	0%	-2%	4.3%	5.4%
Solteq	-11%	-7%	0.8%	-1.8%
Tietoevry	-4%	-4%	10.6%	11.6%
Vincit	-16%	-16%	0.5%	2.7%
Witted	-7.9%	-8%	1.5%	2.6%
Finnish average	-4.3%	-4.1%	3.8%	6.1%
Finnish median	-4%	-3.9%	2.9%	4.8%

Source: Companies and Inderes, EBIT-% used

	2025e (after Q1 report)			2024 actual	
	Growth, %	Organic growth, %	EBIT-% adj.	Organic growth, %	EBIT-% adj.
Digia*	6%	2%	10.3%	3%	10.3%
Digital Workforce	7%	7%	3.6%	9%	2.9%
Gofore*	-4%	-4%	10.7%	-3%	12.8%
Loihde	3%	3%	3.4%	5%	3.0%
Netum*	-6%	-6%	8.6%	3%	10.5%
Siili	2%	0%	5.4%	-9%	4.8%
Solteq	-5%	-1%	4.8%	-7%	1.4%
Tietoevry	-2%	-2%	12.1%	-2%	12.3%
Vincit	-9%	-9%	3.4%	-14%	0.9%
Witted*	-2%	-2%	2.1%	-17%	2.2%
Average	-0.8%	-1.1%	6.4%	-3.2%	6.1%
Median	-1.9%	-1.3%	5.1%	-2.7%	3.9%

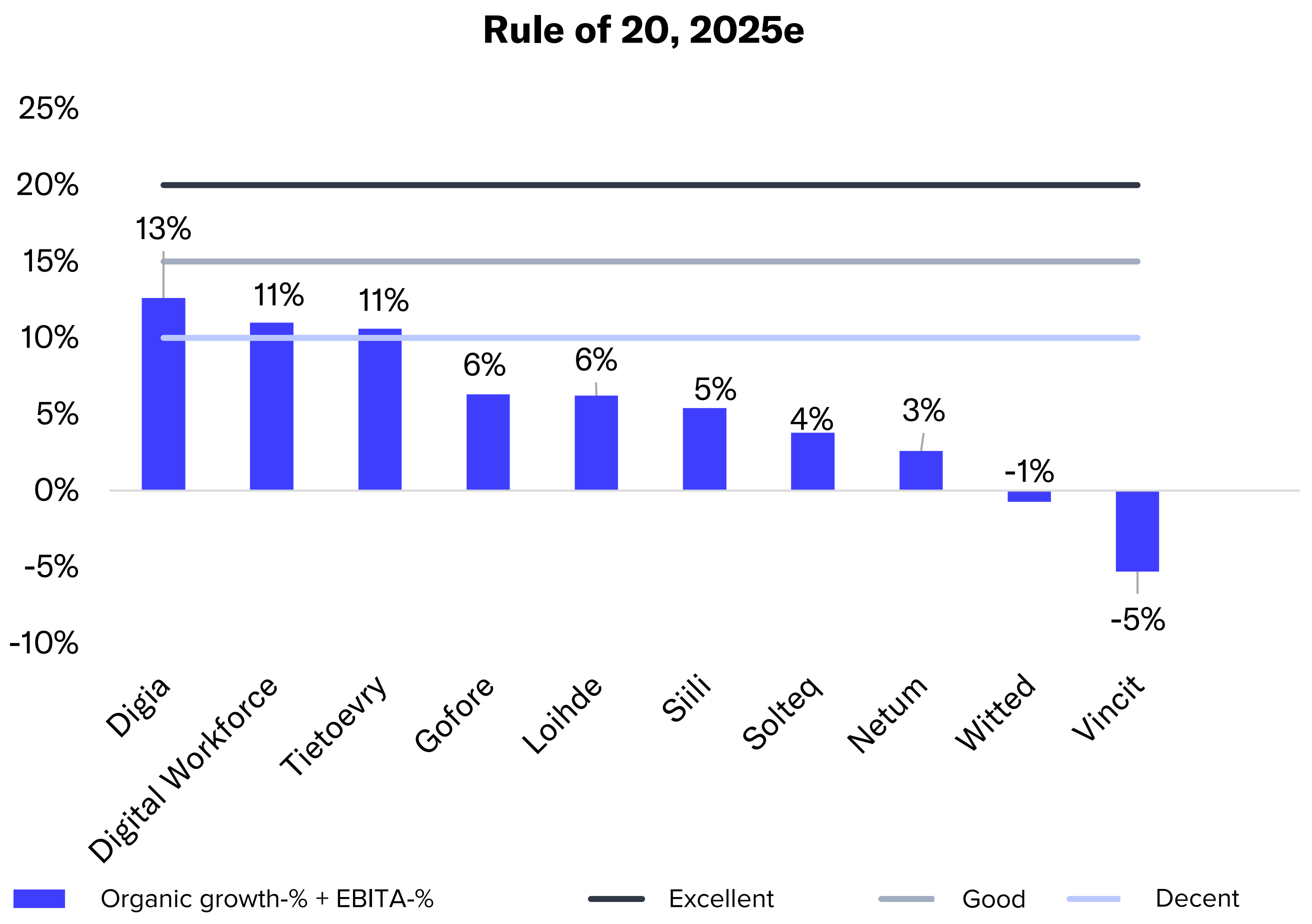
Source: Inderes, *updated after the Q1 report

Source: Inderes

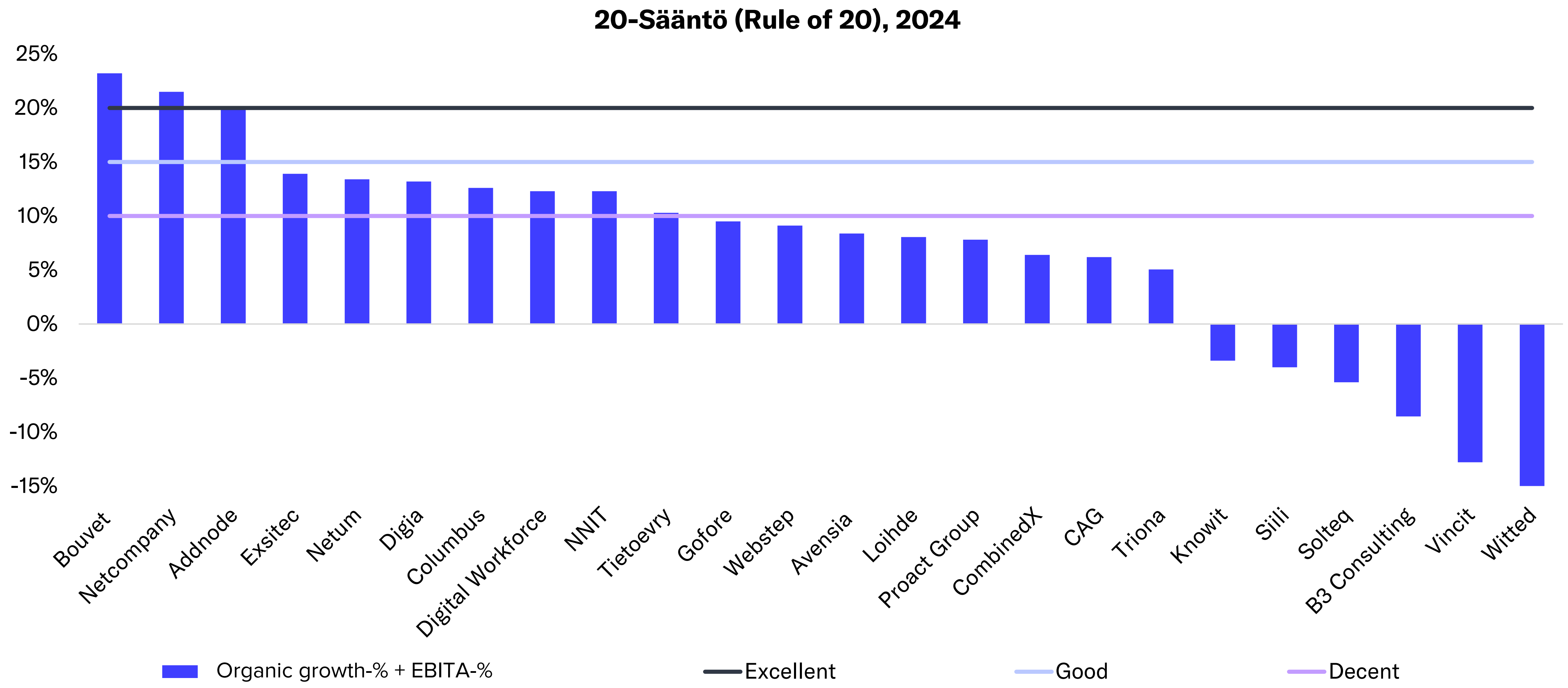
Guidance and expectations for the Finnish IT services market , measured by the *Rule of 20*

Guidance for 2025	Revenue	EBITA/ earnings guidance
Digia	Grows	Growing or at the same level
Digital Workforce	Grows	Grows
Gofore	No guidance	No guidance
Loihde	Growing or at the same level	Grows
Netum*	-7%-+5%	Decreases
Siili*	-3% - +16%	Grows
Solteq	Decreases slightly	Improves clearly
Tietoevry	-2% - +1%	EBITA-% 12-13%
Vincit	Decreases	Improves
Witted	No guidance	No guidance

Source: Companies and Inderes, *Inderes interpretation of the guidance



Nordic IT service market measured by the *Rule of 20* in 2024



M&A in the sector, mainly from Finland

Date	Buyer	Target	Revenue MEUR	EBITDA MEUR	EBITDA %	Personnel	EV MEUR	EV/Sales	EV/EBITDA
05/25	Digia	Savangard	16.4	2.2	13%	150	12-17	0.7x-1.0x	5x-8x
02/25	Solita	PUBLIC (UK)				40			
11/24	Confirma Software	Solteq's Danish healthcare solutions	1.8			15	4.0	2.2	
11/24	Siili	Integrations Group	2.3	0.4		13			
05/24	Eficode	Jodacus	11.5			45			
09/23	Digia	Top of Minds	10.0	1.4	14%	63	12.6	1.3	9.0
08/23	Eficode	Avoset	9.7			20			
08/23	Witted	Loihde Advisory Ab	1.9	-0.1	~-4%	10			
07/23	Netum	Buutti Oy	9.3	1.1	12%	110	10.0	1.1x	9.1x
04/23	Azets	Solteq's Microsoft and Retail businesses	11.2	1.5	~13%	60	15-20	1.3x-1.8x	10x-13x
02/23	DNV Group	Nixu	60.2	2.4	4%	393	98.0	1.6x	41x
01/23	Netum	Studyo	1.3	0.1		14			
01/23	Investcorp International	Eficode Oy	150.0			600			
11/22	Solteq	S2B Energia Oy				10			
11/22	Loihde	Onrego	7.1	0.5	7%	30	4.3	0.6x	~9x
11/22	Gofore	eMundo	~8	0.8	9%	96	8.0	~1x	~8x
10/22	Digia	Avalon	2.4	0.4	15%	24			
10/22	Eficode	Clearvision							
10/22	Siili	Haallas	5.8	0.9	~15%	>50	3.75-9.0	0.6x-1.6x	4x-10x
09/22	Witted	Nexec Oy	12.8	0.7	5.8%	80	8.3-12	0.7x-0.9x	11x-16x
07/22	Vincit	Bilot (merger)	30.5	0.6	2.1%	195			
06/22	Digia	Productivity Leap Oy	5.5	1.2	22%	35			
06/22	Innofactor	Invenco Oy	6.3	0.4		50	3-7	0.5x-1.1x	8x-19x
06/22	Knowit	Marketing Clinic Oy	10.5			60	8.5-10	1.0x	
05/22	Pinja	Oiwa	2.1			25			
04/22	Digia	MOST Digital	3.0	0.0	0%	34			
01/22	Gofore	Devecto	10.7	2.0	19%	130	21-26	2.0x-2.4x	10x-13x
01/22	Solteq	Enerity Solutions Oy	2.2	0.3	~15%	>20	4.5	2x	15x
11/21	Norvestor	Pinja	40.0			450			
11/21	HiQ	Lamia	8.3	2.7	33%	90			
10/21	NetCompany	Intrasoft International S.A.	197.0	18.0	9%	2800	235	1.2x	13.1x
10/21	Netum	Cerion Solutions Oy	3.6	0.5		38	6-7.1	~1.8x	9x
10/21	Bilot	Motley	4.1	0.2		40	5.1	1.2x	26x
09/21	KnowIT	Capacent (management consulting)				50			
08/21	HiQ	Advicon				25			
08/21	Advania	Visolit				1200			
06/21	Eficode	Contribyte	3.8						
05/21	eCraft (Fellowind)	Project-IT	12.0			30			
05/21	Eficode	Beecom (SUI)	10.0	1.5	15%	58	10	1.0x	6.7x
05/21	Loihde	Talent Base Oy	7.4	1.1	15%	58	10	1.4x	9x
05/21	HiQ	Scandio (GER)				100			
05/21	Knowit	Cybercom				1200			13x
04/21	Vincit	Bonsky Digital	2.7	0.2	7%	30	2.7-3.0	1.0x-1.1x	13x-15x
03/21	TSS	Innofactor's Prime business	>2			15			
02/21	Aucerna	TietoEVRY's oil and gas business	~50			430	155	3.2x	
02/21	Solteq	Partiture Oy	2.4	1.0	40%	16		1x	2x-3x
02/21	Gofore	CCEA and Celkee Oy	5.6	1.2	21%	50		1.1x	5.1x

Competitive landscape 1/5

Competitors on three levels

Following the fragmented structure of the Finnish IT service market the competitive landscape is also fragmented. At the top level we feel the competitive field can be divided into three layers.

The first layer is international IT generalists whom according to different market sources hold a market share of close on 50%. These global giants include, e.g., Tietoevry, CGI, Fujitsu, Accenture and Capgemini. The second layer is suppliers with revenue of around 20-200 MEUR and their combined market share is estimated to be around 30%. The third layer and thus the tail-end of the market includes smaller solution houses that employ less than 200 people. Overall, there have been no major changes in the competitive field in recent years.

Digia's competition

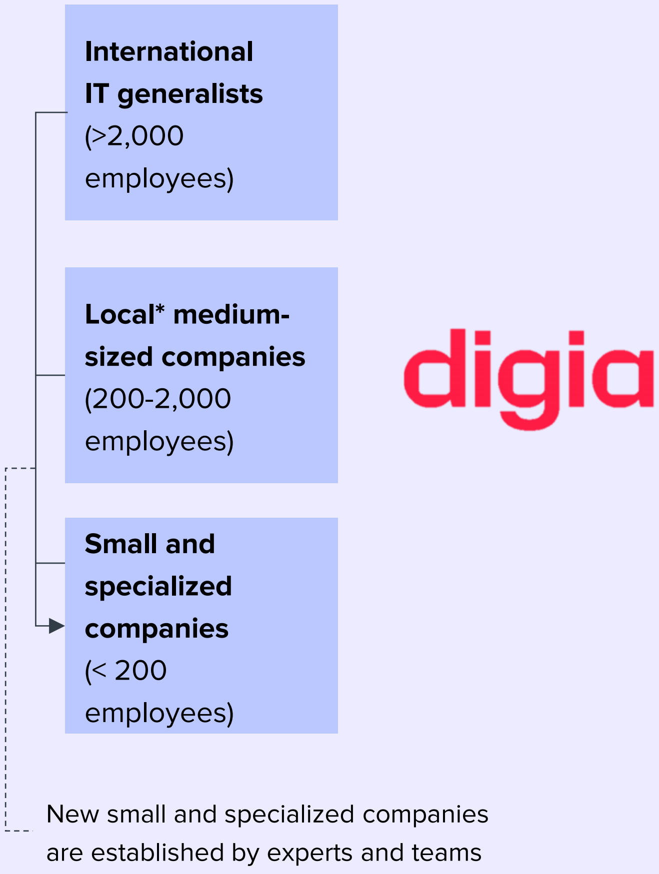
Digia's competitors are large, often international IT generalists and smaller software developers. In the Finnish competitive landscape, Digia can be positioned as a mid-market generalist, meaning that Digia combines many features of both types of players. The company's strength lies in medium-sized companies and selected customer sectors (such as commerce and logistics).

Digia has clearly found its place in the Finnish market, and the company's offering is constantly evolving to better suit the company's strongest market segments. However, the company's positioning is twofold and can also be seen as a difficult middle ground between large players and small agile players, but this does not currently appear to be a weakness. It is difficult for the company to challenge smaller players in agile digital service development, and on the other hand, it is difficult to challenge generalists in delivery capability or the breadth of the offering. However, Digia can also be seen as being well-positioned as a player with the ability to combine large entities and the agility of a small player into the same package. This is the position of a business-critical IT supplier for the customer, which many small players currently acting more as resource suppliers are still striving to grow into. The weakness of software development companies compared to Digia is their limited capability in maintenance business.

Examples of generalist competitors include Tietoevry, CGI and Accenture. Digia or other smaller players cannot differentiate themselves from generalists with their offerings, but their competitiveness comes from agility, industry focus and commitment to the customer. This is an advantage in smaller customer size categories that are not of interest to the largest players. For example, in the ERP market, Digia and its Digia Envision product clearly have good competitiveness in the mid-market (companies with a revenue of 100-200 MEUR), where competition is often less intense. In this size category, customers have high requirements for the IT supplier's capabilities.

Among medium-sized software development companies, Digia's competitors include Reaktor, Gofore, Futurice, Vincit and Solita. Digia aims to differentiate itself from these players with its comprehensive offering and delivery capabilities. In the size category of other medium-sized players, the company's direct competitors in Finland include Fellowmind and Innofactor, mainly in Microsoft's ERP solutions.

Dynamics of the competitive landscape



*Among the medium-sized companies, there are also internationally operating companies such as Siili, Gofore, Digia, Witted, Solteq and Vincit.
Source: Inderes

Source: Inderes

Competitive landscape 2/5

The scale of big players is countered with various means

In our opinion, the clearest strengths of large IT generalists are their extensive resources and broad offerings, which are often reinforced by cost-effective offshore production. Typically, these players have very broad customer and industry portfolios. As such, their understanding of customers and industries is also generally deeper than that of smaller players. At the core of IT generalists' genetic makeup is strong expertise in back-end systems.

In practice, this means that these companies' solutions are both highly business-critical and well-established from the customer's perspective. These back-end system deliveries are also technically very challenging and high-risk projects, which raises the barrier to entry into the field. In our opinion, the key sources of competitive advantage for IT generalists can be summarized as large resources, switching costs faced by the customer, and high barriers to entry.

Next to agility, small companies usually need some expert spearhead to be competitive against large generalists. Smaller companies also break into customers through some other buyer than IT management by selling digitalization solutions, for example, directly to the business. Thus, smaller companies do not necessarily ever face the customer's established system supplier in competition. Large generalists often operate in slightly different areas. In recent years, the biggest players in the sector have, however, started strengthening their abilities in the development of new digital services, which has made the competition tighter (e.g. more overlapping).

Because the revenue model in the industry is capital light and personnel intensive the thresholds to enter the industry are also low in general. Many new payers on the IT service market have been born when experts that have left established IT generalists have founded their own companies. We believe the biggest weakness of smaller players is that they often get stuck in the value chain and must serve end customers only as a part of the value chain. Therefore, small companies are not necessarily able to offer ambitious experts interesting career paths which also makes it more difficult to grow the business and improve the company's position in the value chain. In the competition for experts the key assets of small companies are usually cultural. For example, Luoto Company and its ecosystem have grown strongly and profitably since their establishment (2016) with a people-friendly and entrepreneur-driven salary/ownership model.

Competitive advantages are constantly being built

Due to the good long-term growth outlook in the industry, there is a lot of competition as there are several suppliers on the market, and, as stated before, the thresholds to enter the market are low. We also believe that the preconditions to stand out merely with technical skills and individual point solutions are small. In the long term, we believe competitive advantage must be built based on more extensive skills that aim at strategic partnerships. This in turn requires that the company's operations offer continued dynamism, flexibility, and renewal ability. To be successful in the long term, we believe companies must be able to read the development of both technologies and customer needs and react to these changes by building their own capabilities.

Considering this, we believe that building truly sustainable competitive advantages is structurally hard. We do not, however, consider this to be a barrier for long-term value creation.

Digia's competitive factors

Strengthening factors

- Strong and established market position and customer base, especially in ERP
- Wide offering and ability to deliver extensive solutions (including front-end and back-end) also for challenging customer needs
- Expertise in integration, ERP and e-commerce solutions
- Expertise in certain industries (commerce, finance, manufacturing, logistics and public administration)
- Proprietary technologies and expertise in certain technologies
- Share of recurring services and deep customer relationships in business-critical systems
- Nearshore capabilities improve price competitiveness

Weakening factors

- The project-based business model is exposed to project overruns that are prone to weaken profitability
- The unification of the company's offering is still partly ongoing, and there is uncertainty regarding the realization and scale of synergies
- The company is still partly perceived as being focused on business back-end systems, even though it has significantly increased its digital offering and faster-growing service areas in recent years.

Source: Inderes

Competitive landscape 3/5

Growth and profitability of the peer group

The figure on the next page examines the growth and profitability of listed and unlisted Finnish and other Nordic IT service companies. The comparison also includes some US players that operate globally and play an important role in the European market, as well as Kainos from the UK.

The median annual growth of the peer group in 2020-2024 was about 13% (average 15%), which is explained by market growth, the rapid organic growth of many players and acquisitions. The companies that have grown most strongly have expanded both through acquisitions and organically. Strong organic growers have been, e.g., Gofore, Solita, Witted, Futurice, Netum, Luoto, Eficode, Bouvet and Netcompany. Growth has been slowest for the largest players that have suffered from the market revolution (like Tietoevry and Enfo).

When looking at growth, small specialized operators in the Finnish IT market grew clearly better than the market in the 2010s and until 2022. This reflects the faltering of the demand for conventional system development, and IT demand focusing on new areas to which smaller and more agile players have been able to respond more efficiently. Over the past few years many formerly small and agile players have grown into a relatively larger size class and maintaining the growth rate is becoming more challenging. This has been visible in some companies as a slowdown in organic growth. A company that clearly stands out is the Danish Netcompany, which, despite having almost 5,000 experts (now 8,000), was able to grow its service business organically by ~20% annually and generate an EBITDA margin of over 25% (2024: growth 8% and adj. EBITDA 17%). In terms of profitability, the average for the peer group is 11% (median 12%) measured by EBITDA at an annual level in 2020-2024 (2019-2023: 12%). On average, the profitability of the companies is on a healthy level. The IFRS-16 amendment raised the EBITDA margins of companies using IFRS accounting by some 1 to 3 percentage points starting from 2019 (more moderate effect when examining averages). This weakens comparability with the period preceding 2019, and especially with companies using FAS accounting. In the IT service sector, we have considered an EBITDA level of over 10% to be a good profitability level (excluding the IFRS-16 effect). Companies should not be satisfied with single-digit profitability levels. Large generalists Tietoevry and CGI have generated good profitability despite slow growth, which is based on their strong market position and software business.

By comparing the combination of profitability and growth over the past few years, a few players stand out above the rest. The stars include Finnish companies Gofore, Solita, Sofigate and Netum, as well as Danish Netcompany, Kainos from Great Britain, Norwegian Bouvet, and Globant, Endava and Epam from the US. In addition, Digia and Luoto are right at the cutoff.

When comparing companies, it should be noted that some companies have made more acquisitions than others, which means that growth figures, in particular, may not be very comparable.

Growth drivers

Long-term

- Digitalization will accelerate and grow the market
- AI creates new growth opportunities, but can also undermine some parts of the market
- IT will become more of a key area of companies' business and strategy
- Increasing customer prices
- The definition of the IT service market becomes broader
- Internationalization and increasing nearshore
- Increasing subcontracting
- Acquisitions

Short-term

- Efficient sales function
- Decrease in customer prices
- Recruitment - employee image, low attrition
- Improving efficiency through billable utilization and/or process efficiency
- Acquisitions

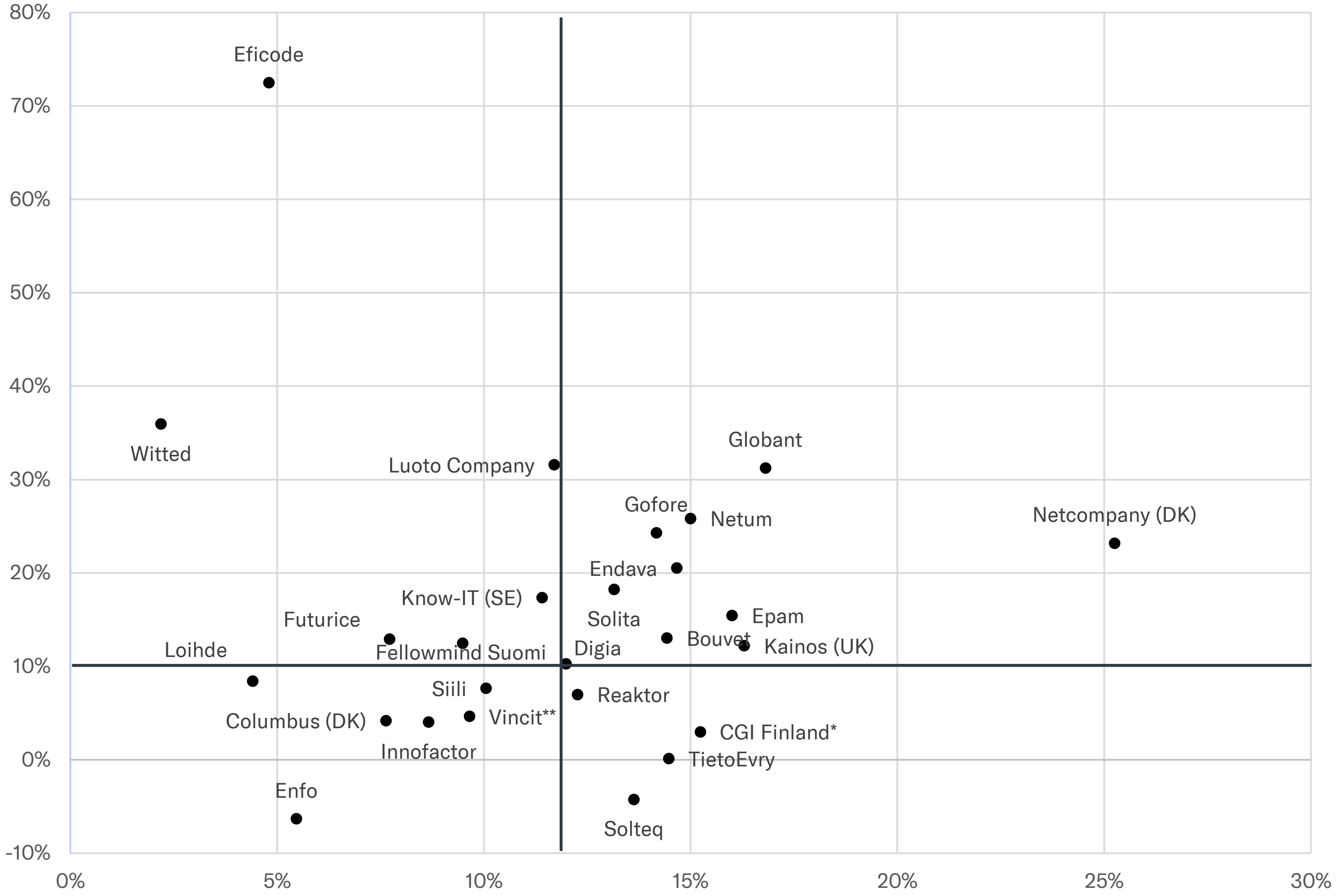
Profitability drivers

Short-term

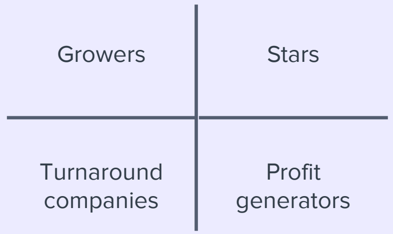
- Customer price pressure
- Billable utilization
- Attrition management
- Controlling wage inflation
- Improving efficiency

Source: Inderes

Competitive landscape 4/5



Profile of competitive field



Stars

- Forerunners with a history of profitable growth
- Mainly small and agile players that have positioned themselves and invested in growing areas of the IT service market
- The organization structures of stars are light, and they are highly business oriented

Growers

- Companies that are growing but whose investments depress profitability
- Growth has often been accelerated with acquisitions

Profit generators

- Companies whose customers have high costs of changing supplier, for example due to tailored software solutions
- Profitability partially optimized at the expense of growth

Turnaround companies

- Mainly conventional IT companies that are in transition or have not been fully capable to adjust to the IT market revolution

Source: Inderes

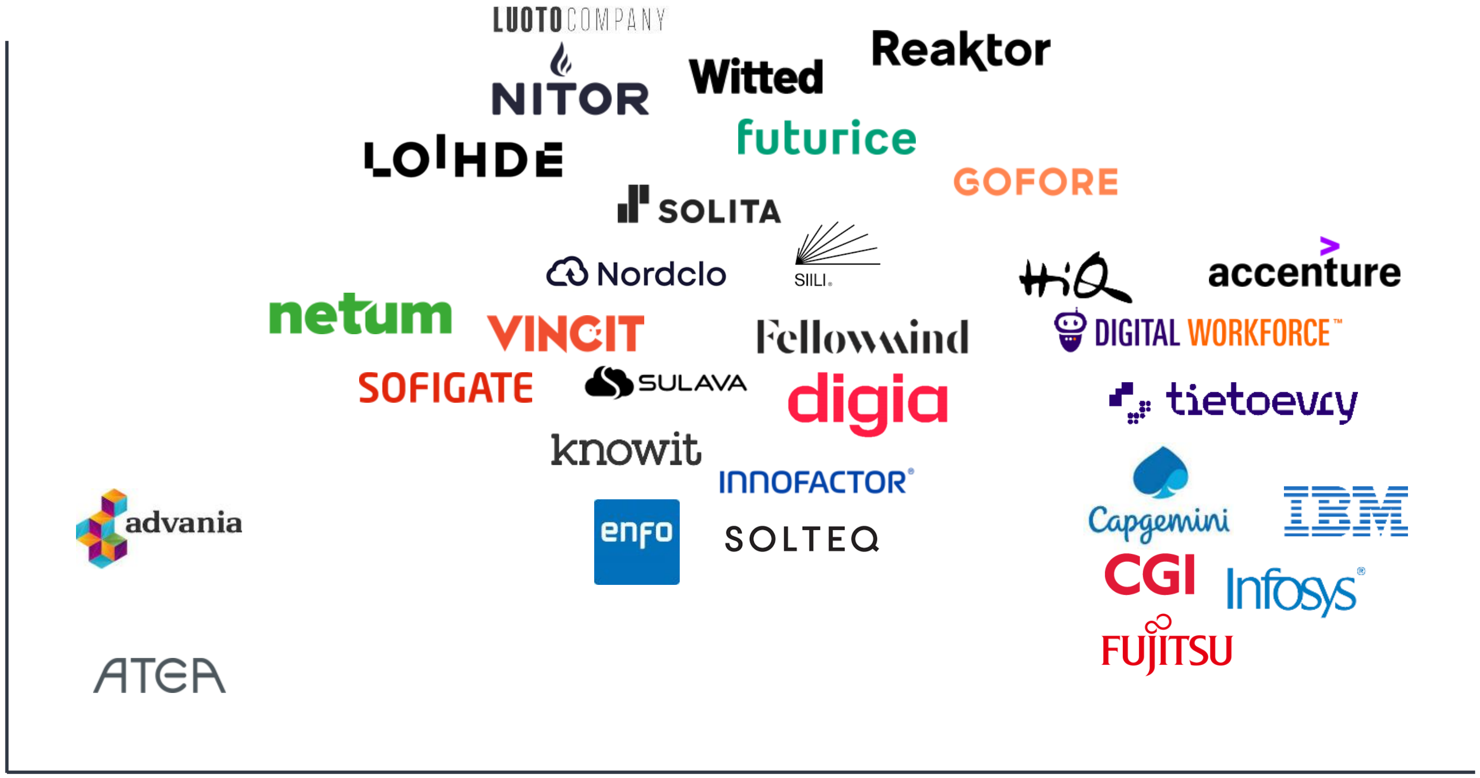
Competitive landscape 5/5

Finland's market structure based on customer size and service area-specific positioning

Local competition | **Nordic competition** | **Global competition**

Medium-sized organizations ⟷ Large organizations ⟷ International conglomerates

New digital services



Maintenance and conventional IT system development

Source: Companies, Inderes

Strategy 1/3

Digia's strategy periods have been a natural continuation of the previous ones

Digia's 2023-2025 strategy aims to continue creating sustainable customer value, profitable growth and internationalize its business. A clear theme in the strategy is automation and intelligence, which the company sees becoming stronger and stronger in all of its service areas. In the big picture, the strategy remains unchanged and is a natural continuation of previous strategy periods. In our view, the clearest change in the strategy is the focus on pursuing international growth. The company took a clear leap in internationalization in 2023 with the Top of Minds acquisition and now in 2025 with the Savangard acquisition.

During the current strategy period, the benefits of the relatively significant investments of the previous period should also be realized, but the benefits have not yet been extracted. Last period, the company invested in scalable product solutions and a substantial in-house business system. During the last strategy period, the company invested in; 1) Utilizing data, which was strengthened by an acquisition, 2) service business, the share of which increased (2018 51% -> 2022 60%), but has decreased in recent years, 3) productivity and scalability, for which evidence is still awaited, 4) cloud technologies and 5) employer image, which seems to have paid off. In the big picture, we believe that the company has been relatively successful in implementing its strategy and strengthening its structure in previous strategy periods.

Growth target of over 10% annually

Digia aims for over 10% annual growth in 2023-2025. Growth is sought both organically and through acquisitions. During the previous strategy period, the company grew by an average of 9%, of which 2 percentage points came organically in 2020-2022. During the strategy period, the company made six acquisitions, which supported growth by an average of about 7% per year. During this strategy period, the company has completed two acquisitions.

The current strategy period's growth drivers are:

1) Specialized precision solutions and deeper partnerships, i.e., a larger share of delivery and recurring revenue, which has not been successful, at least in terms of recurring revenue.

2) Extensive solution packages utilizing Digia's entire offering, i.e., increasing cross-selling

3) Expanding the offering, new market areas and customer relationships, supported by acquisitions. The acquisitions made have been in line with these targets.

4) Expanding target markets and customer base by increasing internationalization. There is still room for improvement organically.

In our view, the growth drivers remain unchanged in the big picture. The drivers reflect the trends in the IT market, where the aim is to be a strategic partner for the customer. Achieving the role of a strategic partner clearly facilitates business, as it brings continuity and reduces the need for more challenging new sales. In our view, the clearest change is the placing of international organic growth at the heart of the strategy.

The target was and still is realistic, as acquisitions have been made, as we estimate revenue to grow by an average of 9% during the strategy period 2023-2025. Digia has also shown better development than the sector organically, which is naturally positive, considering the several years in the past when it lagged behind the sector's organic growth.

Financial targets

- **Revenue growth: over 10% annually, including organic and inorganic growth**, with growth of 13% and 7% in 2023-2024 (organic 9% and 3%)
- **EBITA: over 12% of revenue at the end of the strategy period** 2023-2024 EBITA-% was 9-10%

Expansion of international business

- **Over 15% of revenue at the end of the strategy period** (18% at the end of Q4'25e)

Sustainability targets

- **Environment – carbon neutrality: CO2 emissions -60%** (2024 -40% compared to 2019)
- **People – a thriving, diverse and skilled workforce: eNPS +35%** (2024 +60% compared to 2022)
- **Luottokumppani – a visionary, reliable & safe partner: NPS +25%** (2024 +18% compared to 2022)

Strategy 2/3

Internationalization is a new clear focus area

Internationalization plays an exceptionally important and new role in the growth target and during this strategy period. In terms of international business, the company is aiming for a share of more than 15% of revenue at the end of the strategy period. The acquisition of Climber in Sweden in 2021 clearly strengthened the company's international position (~8% of revenue). Climber's expertise has been transferred to other parts of Digia's organization and more closely integrated into the overall offering. With the acquisition of Top of Minds in the fall of 2023, Digia further strengthened its presence and offering in Sweden and especially in Stockholm. As a result, the company now has a clearly broader offering and customer base in Sweden, with which and from which to pursue organic international growth. Following the acquisition, the share of international business increased to 12% of revenue. In 2025, with the Savangard acquisition, we estimate that the share of international revenue will increase to approximately 18% at the end of 2025. At the same time, the company strengthens its integration expertise and expands into the Polish market. The company's price competitiveness will further improve with the Polish nearshore market.

In the short term, we estimate that the company will digest the Savangard acquisition and continue to focus on integrating the Swedish acquisitions with each other and into Digia as a whole.

Stable and good profitability

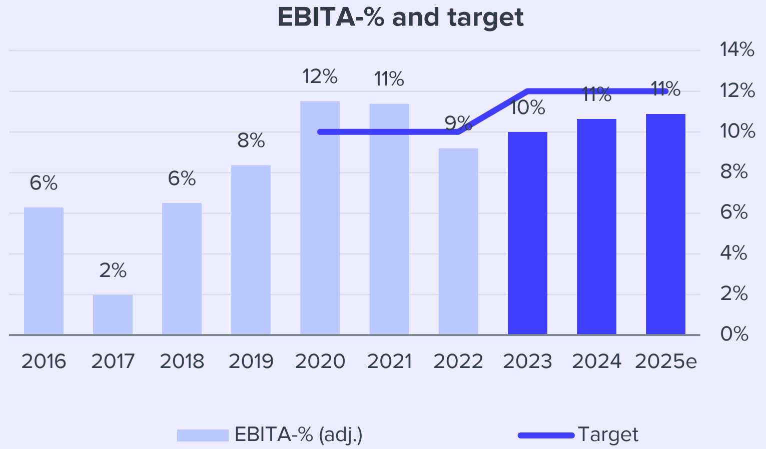
In terms of profitability, the company aims for an EBITA margin of over 12% of revenue at the end of the strategy period. The target is a level above the sector average (EBITA-% of ~8%). The company already reached an EBITA margin of approximately 11.5% in 2020-21, partly supported by COVID-related savings. On the other hand, the company is also clearly investing in its own business platform and scalable solutions. In our view, the investments should support profitability already in the next few years, but wage inflation and the increase in subcontracting create headwinds. Overall, we consider the profitability target realistic, but the current market weakness creates headwinds. In 2023-25e, the EBITA-% was 9%, 10% and 10%, which is above the sector level, but below the target level of 12% at the end of the strategy period. In terms of profitability, the company's clearest risks are price pressure, project risks and the sensitivity of the project business' profitability to changes in customer demand. In our view, however, project management has improved in recent years, as the company has not made any major blunders in projects, at least not on its own. However, due to the market situation, project launches have been delayed, but this is not due to Digia, but to its customers. However, Digia's billing rates are suffering, which is creating pressure on profitability.

Digia aims to distribute at least 30% of the Group's annual profit as dividends. We estimate that the company will aim to distribute a moderate and absolutely increasing dividend in the coming years. However, the main focus is on growth investments.

The next strategy period 2026-2028

In previous strategy periods, there have been no major changes in the strategy, but rather minor focus adjustments, which is an introduction to a working recipe and a steadily advancing business. Even with the new strategy period, we do not expect any major revolutionary changes to the strategy but rather expect the company to continue with its current successful recipe, strengthening growth areas (Business Operations Center (recurring services), security business, own scalable products). We estimate that the company will focus even more on international business. With the latest acquisition, the vision for internationalization is to be a "Northern European Integration Powerhouse" going forward. Artificial intelligence is naturally included as part of the strategy of all companies. In our view, the company's financial targets are appropriately ambitious and realistic at the same time.

Financial targets



Digia's development stages

Profitable growth and stronger focus on international business

Nokia crisis and renewal

2011-2013

- The mobile competitive landscape changed and took away Digia's core business
- Digia acquired Qt licensing and service business from Nokia and later the entire technology.
- The IT service business was adapted to respond to the collapse in demand, and profitability recovered

Focus on Qt

2014-2016

- Digia returned to a growth path driven by the Qt business
- The company invested significantly in Qt technology
- The role of the IT service business is more in a "cash flow" mode, financing Qt investments
- Slow growth but good profitability in the IT service business
- The spin-off of Qt in spring 2016

Creating the foundation

2016-2017

- The independent IT service business now has a clear growth strategy
- Reform of the management team
- New organizational model
- Acquisitions in growth areas
- From a portfolio company to a unified Digia
- Changes and project overruns weigh on profitability

Growth and profitability improvement

2018-2019

- Competitive advantage from a unified offering
- Target growth of over 15% organically and through acquisitions
- Improved profitability

Next step of growth

2020-2022

- Utilizing data as part of a broad service offering
- Target growth of over 10% organically and through acquisitions
- EBITA-% target of 10% in 2022
- The aim is to increase the share of scalable business

Profitable growth and stronger focus on international business

2023-2025

- Automation and intelligence are clear themes in the strategy.
- In the big picture, the strategy remains unchanged and is a natural continuation of previous strategy periods
- The clearest change in the strategy is internationalization
- Target growth of over 10% organically and through acquisitions
- EBITA-% target of over 12% in 2025

Source: Inderes, Digia

Strategy 3/3

M&A

In its strategy, Digia has stated that in addition to organic growth, it is actively looking for M&A targets that support its strategy. In recent years, the company has also made strong use of inorganic growth, strengthening several of its service areas through acquisitions and expanding geographically. Digia's M&A criteria stipulate that the business to be acquired must clearly support other service areas. Based on the comments, the company is keeping several doors open geographically and in terms of its competence portfolio, which has also been reflected in the most recent acquisitions.

In our view, the company's latest acquisitions have been successful in the big picture. Digia has not always disclosed the purchase prices, but interpreting the financial statements, the company has paid an average of 0.8x P/S for acquisitions during the strategy period 2017-2019, an average of 1.6x in 2020-22 and 1.0x in 2023-25. In the short term, we estimate that the company will digest the Savangard acquisition and allow cash flow to strengthen the balance sheet again. In the medium term, we still consider new transactions very likely.

Digia traditionally uses a relatively large amount of debt and cash in its acquisitions, rather than its own shares. However, the company also repays its debt quickly thanks to its strong cash flow. In addition, traditionally the acquisitions have been relatively small.

The latest acquisitions

During the strategy period 2016-2019, Digia used 24 MEUR for acquisitions, in the strategy period 2020-2022 the company used 45 MEUR for acquisitions, and in 2023-2025 the company has so far used 27 MEUR. In total, the company has made 15 acquisitions since 2016, which means that the company can be said to have strong experience in M&A. This also reduces the risks associated with future arrangements.

In January 2021, Digia acquired Climber, a Swedish company that offers consulting and solutions for developing data-driven business for its customers. The deal also included operations in Finland, Denmark and the Netherlands, but the Swedish operations are clearly the largest (~9 MEUR). In September 2021, the company strengthened its offering in ERP and data utilization with a small acquisition of Solasys, which had nine employees. With these acquisitions, the company acquired a total of around 15 MEUR in revenue.

In 2022, Digia made 3 acquisitions, generating revenue of 11 MEUR. With the acquisition of MOST Digital, the company expanded its offering to include software robotics services. From our understanding, this acquisition has been successful and the expertise has been transferred to other Digia's services. With the Productivity Leap acquisition, Digia increased its footprint and enabled growth, especially in the healthcare and social welfare sector and in the information management service area. With the acquisition of Avalon, Digia strengthened its customer experience development and digital marketing.

In 2023, the company acquired the Swedish company Top of Minds, taking a leap in internationalization and strengthening its expertise in data & analytics, integration, e-commerce and project management. Top of Minds' revenue was approximately 10 MEUR.

In 2025, Digia acquired Polish integration expert Savangard. In our view, the deal is interesting because it allows the company to expand into new markets, strengthen its already strong integration expertise and improve its price competitiveness. The deal is well in line with the company's growth and internationalization strategy.

Digia's acquisitions

Acquisitions	Year	Revenue	Personnel
Igence	2016	2.3	24
Omni Partners and Nord Software	2017	3.9	52
Integration House	2017	1.8	21
Avarea	2018	3.6	41
Mavisystems and Mirosys	2018	3.2	34
Starcut	2019	1.0	17
Accountor Enterprise Solutions	2019	12.7	114
NSD Consulting Oy	2020	3.5	14 +1,600
Climber Ab	2021	13.4	77
Solasys	2021	1.3	9
MOST Digital	5/2022	2.8	34
Productivity Leap	7/2022	5.5	56
Avalon	10/2022	2.4	24
Top of Minds	10/2023	10.1	63
Savangard	6/2025	16.4	150

Acquired subsidiary shares	Purchase price	Revenue	P/S
In 2016	2.1	2.3	0.9
In 2017	4.0	5.7	0.7
In 2018	8.0	6.8	1.2
In 2019	10.0	13.7	0.7
In 2020	6.3	3.5	1.8
In 2021	17.7	14.7	1.2
In 2022	21.1	10.7	2.0
In 2023	12.6	10.1	1.2
In 2025	12-17	16.4	07-1.0
Total	96.3	83.9	1.1

	Purchase price	Revenue	P/S
Strategy period 2017-2019	22.1	26.2	0.8
Strategy period 2020-2022	45.1	28.9	1.6
Strategy period 2023-2025	27.1	26.5	1.0

Past development 1/2

Restructuring after the Nokia collapse

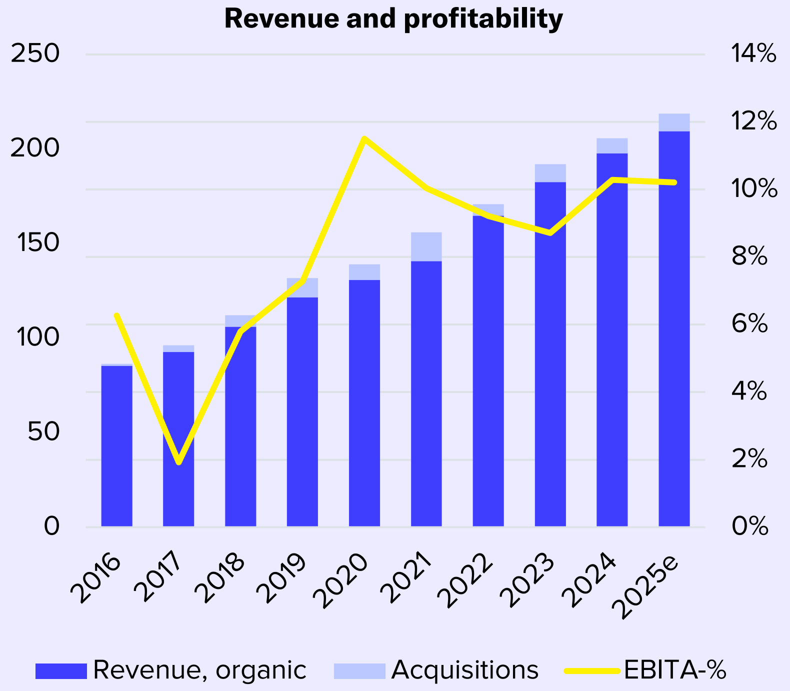
Digia rose to the size category of a significant player in 2005, when SysOpen merged with Digia and SysOpen acquired Yomi Software. The company's personnel almost tripled and revenue was 60 MEUR at the end of 2005. After this, the company grew, driven by mobile expertise and acquisitions, to a revenue category of over 130 MEUR by 2010. After the Nokia crisis, the company had to make major changes to adapt to the new market situation. Service business revenue decreased by around 50 MEUR in a few years. However, the company quickly adapted its service business. From 2012 to 2015, service business revenue remained stable. At the same time, the EBIT margin was loss-making in 2013 and then gradually rose to just over 5% in 2015. However, adjusted for mobile business write-downs and restructuring costs, the service business operating profit margin remained in the 7-8% range in 2012-2015.

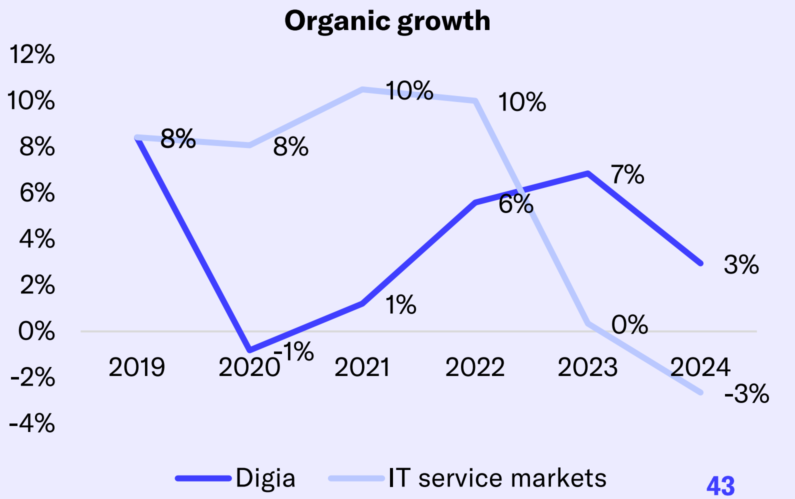
The post-spin-off era and the building of a new Digia in 2016-2019

After the Qt spin-off in 2016, the independent Digia launched a new strategy and the development of its service business. The new structure and strategy have already been systematically developed for almost three strategy periods under the same management. In the big picture, the offering and structure have been developed internally and through acquisitions. Organic growth has been good/satisfactory, and profitability has been raised to above the sector average. Now, in the last strategy period, internationalization has clearly been accelerated with two acquisitions. During the strategy period of 2016-2019, Digia grew by an average of 16%. Organic growth was estimated to average 9%. During the strategy period, the company completed a total of 7 acquisitions, strengthening its offering and acquiring around 28 MEUR in revenue and about 300 employees. The company's EBITA margin was in a slump in the early part of the strategy period due to project overruns, but gradually improved until 2019 (2016-2019: 7%, 2%, 7% and 8%). The company returned an average of slightly less than 60% of its earnings to investors as dividends between 2016 and 2019.

Growth driven by acquisitions and good profitability in 2020-22

During the strategy period of 2020-2022, Digia grew by an average of 9%. Organic growth was estimated to average 2%. During the strategy period, the company completed a total of 6 acquisitions, strengthening its offering and acquiring around 29 MEUR in revenue and just over 200 employees. The company's EBITA-% improved and was at a strong level of 12%, 11% and 9% in 2020-2022. Profitability was supported by corona-related savings, lower employee turnover and limited wage inflation. At the same time, the company invested in product solutions and its own business platform through the income statement for 2.8 MEUR in 2022 and capitalized 3.7 MEUR on the balance sheet in 2021-2022. The company returned on average over 40% of its earnings to investors as dividends for the years 2020-2022. Overall, the performance of the strategy period can be considered good, especially considering the business environment changed by the pandemic, Russia's attack on Ukraine, and the general market uncertainty in 2022.





Past development 2/2

Years 2023-24: Above-sector performance

In 2023-2024, Digia grew by an average of 10% to 206 MEUR in 2024. Organic growth averaged 5%. Organic growth has been relatively clearly better than the sector (sector 2023-2024: 0% and -3%). The general economic weakness and the impacts of Russia's war of aggression hit demand in the IT services market more strongly from Q2'23 onwards, which also made Digia's organic development more difficult. However, Digia's broad service offering is currently well aligned with market trends, and the company's competitiveness seems to have strengthened further, which is reflected in organic growth that is better than the sector. In 2023, the company completed one acquisition in Sweden, taking a clear leap in internationalization. The impact of the acquisition on an annual level was around 10 MEUR.

During the previous strategy period, Digia invested in scalable solutions, but the benefits of this have not yet been reflected in profitability. The company's EBITA margin was at 9-10% in 2023-2024, which is also better than the sector's level of about 6-7%. Profitability was limited by the challenging equation of wage inflation and customer prices. In addition, profitability was weighed down by the relative increase in other operating expenses, which can be partly attributed to the reversal of COVID-related savings.

Due to debt financing for acquisitions and rising interest rates, interest expenses also increased, slightly eating into profits (2022-24: 0.7 MEUR, 1.4 MEUR and 1.3 MEUR). However, the company has traditionally paid off its debt quickly, supported by strong cash flow. Earnings per share were EUR 0.37 and EUR 0.50 in 2023-2024. The company returned an average of 41% of its earnings to investors as dividends for the years 2023-2024.

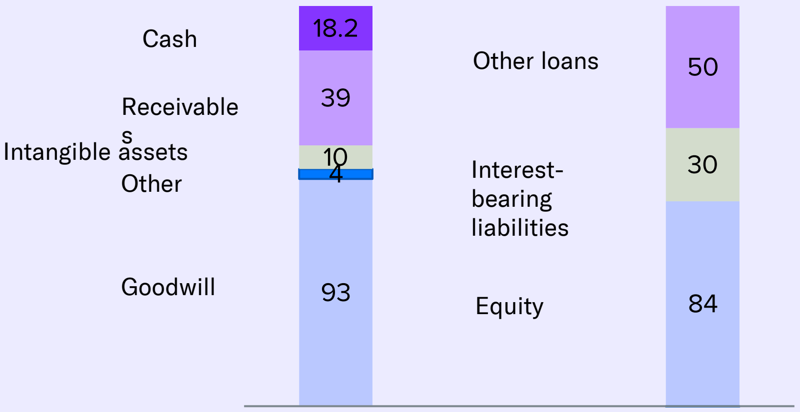
Overall, the performance of the first two years of the strategy period can be considered good when compared to the sector's performance. Measured by our *Rule of 20* metric, which we launched at the beginning of the year and which looks beyond the cycle, the figure would be around 15, which is on the border between satisfactory and good performance. However, considering the weak cycle, the *Rule of 20* performance can still be considered at least good overall.

Balance sheet structure

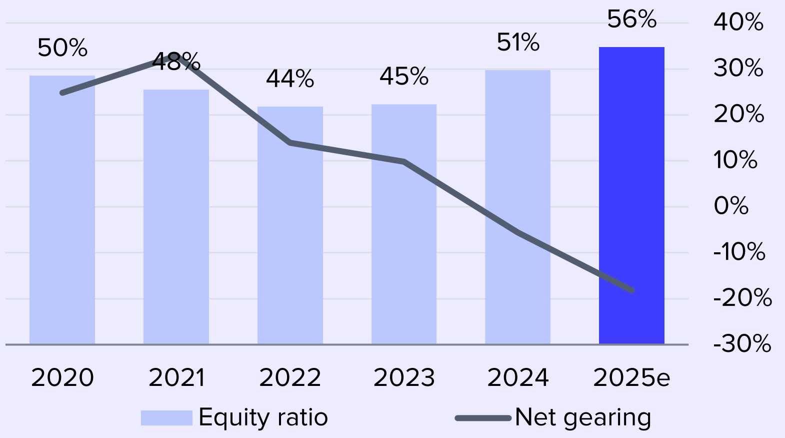
Digia has historically had a healthy balance sheet, with debt, but moderately, and good cash flow is constantly improving the balance sheet. The Savangard acquisition will slightly weaken the balance sheet and will be consolidated from the beginning of June 2025. At the end of 2024, the company had 30 MEUR of interest-bearing debt (including 3 MEUR of IFRS 16 lease liabilities). At the end of 2024, the equity ratio was 53% (2023: 47%), the net gearing ratio was 14% (2023: 33%) and the net debt/EBITDA was 0.5x (2023: 1.2x). The company's other intangible assets amounted to 10 MEUR (2023: 13 MEUR) but will increase due to the acquisition.

Digia had 18 MEUR in cash at the end of 2024, which will decrease due to payments of additional purchase prices and debts. Cash flow from operating activities in 2024 was 25 MEUR. Digia's largest balance sheet assets are clearly goodwill and receivables, which accounted for 57% and 23% of the balance sheet at the end of 2024.

Balance sheet at the end of 2024



Development of key balance sheet figures



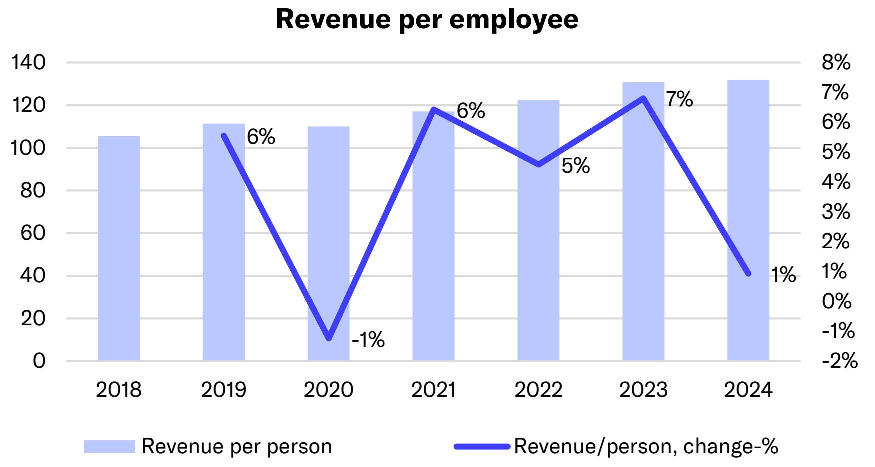
Past development

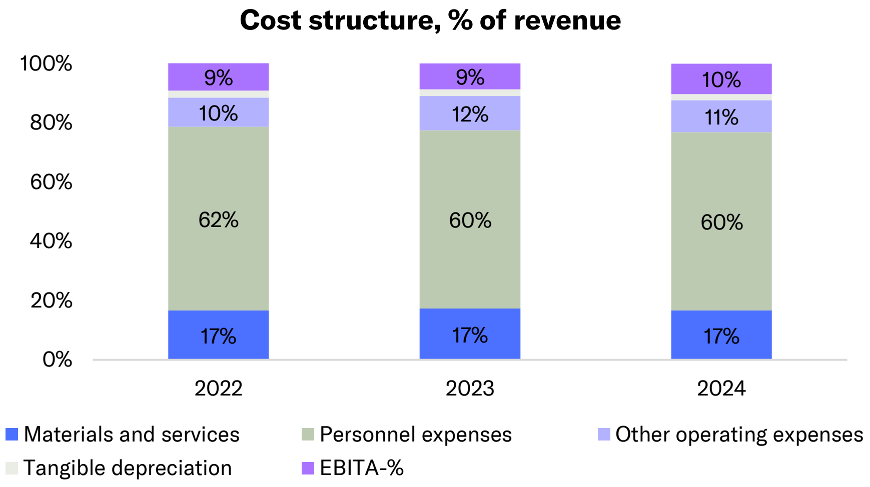
Condensed income statement	2020	2021	2022	2023	2024	2025e
Revenue	139.0	156	171	192	206	219
EBITDA	20.2	22.2	19.8	21.1	25.4	26.0
EBITA	16.0	17.7	15.7	16.7	21.2	21.8
EBIT	14.1	14.7	12.7	13.8	18.2	19.1
Profit before tax	13.5	14.6	12.1	12.4	16.9	17.9
Net profit	10.6	11.8	9.6	9.9	13.3	14.3
Earnings per share	0.5	0.6	0.48	0.47	0.60	0.64
Free cash flow	15.7	4.4	0.1	-0.5	19.1	8.2

Key figures	2020	2021	2022	2023	2024	2025e
Revenue growth, %	5.5%	12.1%	9.5%	12.5%	7.1%	6.4%
EBITDA-%	14.5%	14.2%	11.6%	11.0%	12.4%	11.9%
EBITA-%	11.5%	11.4%	9.2%	8.7%	10.3%	10.0%
EBIT %	10.1%	9.4%	7.5%	7.2%	8.9%	8.7%
ROE-%	18.7%	18%	14%	13%	17%	16%
ROI %	16.7%	16%	13%	13%	16%	17%
Equity ratio	50.2%	48%	44%	45%	51%	56%
Net gearing	17.3%	16%	25%	33%	14%	10%

Share indicators	2020	2021	2022	2023	2024	2025e
EPS (adjusted)	0.47	0.55	0.48	0.47	0.60	0.64
Cash flow/share	0.58	0.16	0.01	-0.02	0.71	0.31
DPS	0.15	0.17	0.17	0.17	0.18	0.19
Equity / share	2.26	2.55	2.66	2.81	3.12	3.47

Source: Inderes





Source: Digia and Inderes

Estimates 1/3

Estimate drivers

We forecast Digia's revenue through changes in its own personnel, as the company's revenue is strongly dependent on its expert capacity. The company does not separately report the use of subcontracting, which slightly weakens predictability. On the other hand, based on our calculations and the company's comments, the use of subcontracting is very stable. In addition, changes in customer prices, the product business, and especially billing rates affect revenue, and we forecast this through the revenue per employee per working day parameter. The product business is very stable and therefore does not significantly affect the aforementioned parameter, and we naturally also monitor it separately.

The largest expense item in the cost structure is personnel costs, which are directly related to changes in the number of own personnel, productivity, and wage inflation. Also, materials and services mainly (2/3) consist of subcontracting costs directly tied to revenue, and the rest are license costs, which are also tied to revenue. We forecast the third largest expense item, other operating expenses, in relation to revenue growth.

The short and long-term growth and profitability drivers can be seen on the right sidebar on the next page.

We also expect the company to continue its inorganic growth, but we do not, of course, include this in our forecasts. However, the company has a strong history of successful acquisitions.

Savangard brings an interesting new dynamic to Digia's operational story, as nearshore capabilities are being utilized more strongly. In the coming years, we will be monitoring how the company leverages and further develops Savangard as part of Digia.

Year 2025e reflects good continuous performance

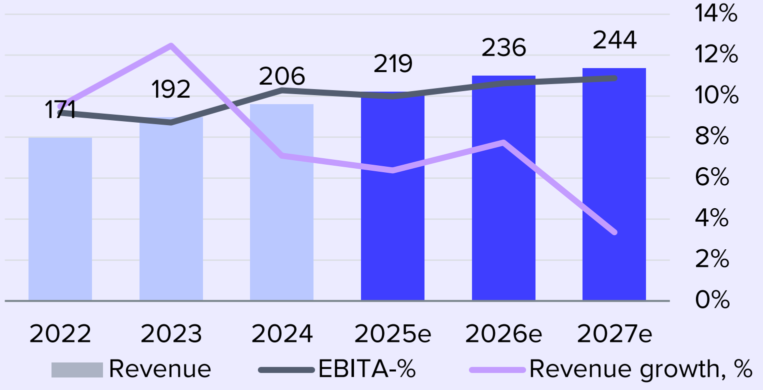
The year 2025 is the last year of Digia's current strategy period. The company guides for revenue to grow and EBITA to grow or be at the same level compared to 2024.

We forecast revenue to grow by 6% in 2025, driven by acquisitions (4%) and supported by organic growth (2%). We estimate that the number of employees will increase moderately organically, thus supporting organic development. Digia completed the Savangard acquisition, which was consolidated at the beginning of June. The acquisition will clearly increase the share of international business (~7-% units), and we estimate it to be about 18% at the end of 2025.

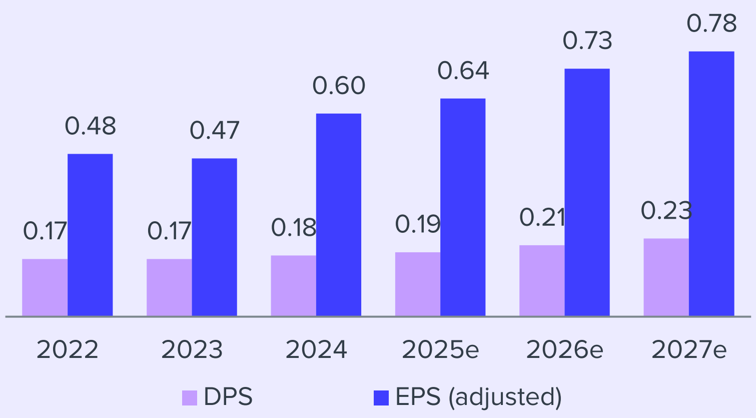
We estimate the EBITA margin to be at the previous year's level of 10% in 2025. Profitability continues to be limited by the negative equation of customer prices and wage inflation, as well as billing rates. In a way, we expected more from profitability in 2025 and throughout the strategy period, as the company invested in productivity and scalability during the last strategy period, which, however, has not materialized in terms of profitability. Despite the challenging market environment, profitability has remained good and clearly above the sector level.

We expect earnings per share to increase by EUR 0.03 to EUR 0.53 in 2025. We forecast that the company will pay a dividend of EUR 0.19 per share, which corresponds to 36% of earnings (target at least 30%). We estimate that in the short term, the company will use cash flow more strongly for debt repayment.

Revenue and profitability development



EPS and DPS



Estimates 2/3

Summary: Considering the circumstances, the strategy period 2023-25 has gone even very well

Looking at the entire strategy period, we estimate that the company will achieve an average annual growth of 9%, while the target was 10%. In terms of profitability, the company's target was 12% at the end of the strategy period, while our EBITA-% forecast is 10% in 2025. In addition, the company aimed for an international revenue share of over 15% at the end of the strategy period, which the company will achieve through the acquisition, as we forecast an 18% share in H2'25. Overall, in our view, the strategy period can be considered at least a good, even a very good performance, considering the challenging and uncertain market situation. In addition, strategically, the offering has progressed as planned, and the broad offering responds well to market trends.

For 2026-2028, we expect ~10% annual earnings growth

For the next strategy period of 2026-2028, we forecast revenue to grow by 8%, 3% and 5%, as the company gradually gets a boost from the market recovery. The company still has clear growth potential through billing rates. The use of subcontracting also still provides room to grow. We have not included any potential Savangard synergies in our forecasts, but we are following with interest how the company will be able to utilize nearshore capabilities as part of Digia. In addition, we estimate that the company will continue to pursue inorganic growth, but we are not forecasting this, of course. The strong cash flow continuously strengthens the balance sheet and enables at least a smaller acquisition every year, in addition to the dividend distribution.

We expect profitability to gradually increase to 11% in 2028, supported by previous investments and billing rates. %.

Profitability is supported by a better equation between customer prices and wage inflation, as well as billing rates. In addition, IFRS 16 depreciation levels will decrease slightly from 2026 onwards, as the company has clearly reduced its office space volumes and at the same time achieved better prices per square meter.

Overall, we expect profitability to remain below the target level of the current strategy period in the coming years as well. We still consider the targeted EBITA-% levels (over 12%) to be realistic, but in our view, this would require the market uncertainty to ease. The unfavorable customer price/wage inflation development in the general market keeps us cautious, even though the company seems to be performing better than the sector in this respect at the moment. There is also potential in the product business, but we are not forecasting this until we see clear signs of growth in the product business.

We estimate that amortization related to the acquisition costs of business acquisitions will be ~2 MEUR in 2026-28. Financial expenses are decreasing relatively quickly, driven by accelerated loan repayments.

We forecast the company's earnings per share, adjusted for amortization of acquisition-related purchase price allocation, to grow by an average of 9% per year and to be EUR 0.73, EUR 0.78 and EUR 0.83 in 2026-28. From a comparability perspective, adjusting for these accounting items with no cash flow impact is justified. We estimate that the company will increase its dividend by EUR 0.02 in 2026-28, with the dividend payout ratio corresponding to 32% of earnings, which is just above the dividend payout target. Thus, the company will quickly have room on its balance sheet for new, even larger acquisitions.

Digia's growth drivers

Long-term

- Digitalization will accelerate and grow the market
- Digia's overall offering responds well to market trends
- Internationalization
- Increasing customer prices
- Acquisitions

Short-term

- International growth – Sweden and near/offshore
- New growth areas - Business Operations Center, data and AI, security business and the defense industry
- Improving efficiency
- Fruits of investments
- Recruitment and increased subcontracting
- Acquisitions

Digia's profitability drivers

- Utilizing the company's own business platform
- Increasing product business and scalable solutions
- Improving efficiency through investments made and billing rates achieved during the last strategy period
- Managing wage inflation and customer price dynamics. Digia's nearshore offering helps with this.

Estimates 3/3

In the short term, geopolitical and general economic uncertainty continue to create clear uncertainty for Digia's business and our forecasts, although the uncertainty is less than the sector average. The bottom of the sector seems to be near, but there is still no better visibility on the improvement of the market situation. Digia's key risks relate to customer demand, project management, return on investments and M&A risks. The company's broad offering and the large share of recurring services and maintenance provide continuity to the business and reduce the level of risk associated with our forecasts (50% of revenue in 2024).

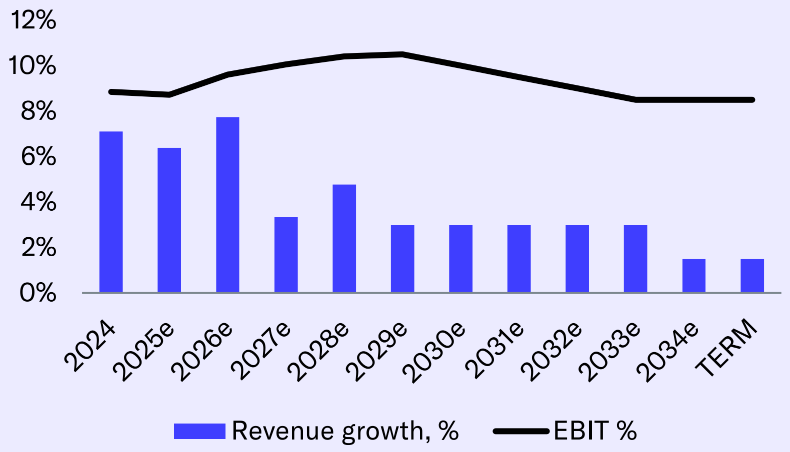
Long-term estimates

In our forecast model, the company grows at an average rate of 5.6% in 2025-2028, supported by acquisitions, 3% in 2029-33 and 1.5% in the long term. In addition, the EBITA margin is 10-11% until 2030, after which it will decrease to 8.5% in the terminal, which reflects a slightly better level of profitability than the sector average and a weaker level than the company's recent years. In Digia's current strategically more mature and operationally stable situation, the longer-term forecasts then also provide useful support for our valuation.

Digia's key risks are related

- Customer demand
- Project management
- Productivity of investments
- Risks of acquisitions

Long-term growth and profitability assumptions



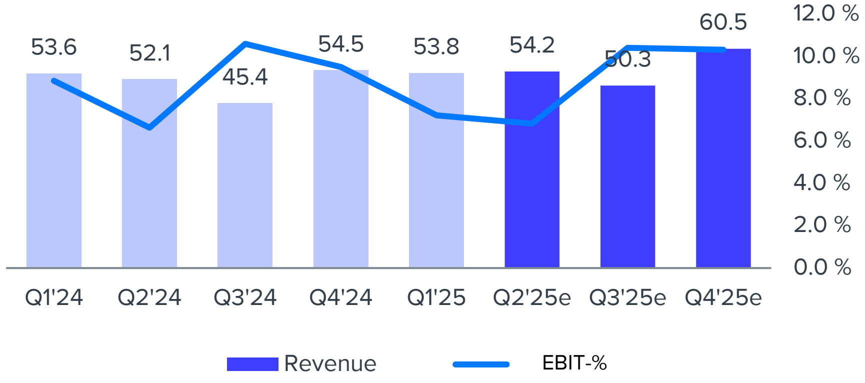
Quarterly estimates

Income statement	2022	2023	Q1'24	Q2'24	Q3'24	Q4'24	2024	Q1'25	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e	2028e
Revenue	**171**	**192**	**53.6**	**52.1**	**45.4**	**54.5**	**206**	**53.8**	**54.2**	**50.3**	**60.5**	**219**	**236**	**244**	**255**
EBITDA	**19.8**	**21.1**	**6.6**	**5.3**	**6.7**	**6.9**	**25.4**		**5.4**	**7.0**	**8.0**	**26.0**	**28.9**	**30.4**	**32.0**
Depreciation	-7.1	-7.3	-1.8	-1.8	-1.9	-1.7	-7.2		-1.8	-1.8	-1.8	-7.0	-6.2	-5.9	-5.4
EBITA (adj.)	**15.9**	**17.1**	**5.5**	**4.5**	**5.7**	**5.9**	**21.5**	**4.8**	**4.9**	**5.9**	**6.9**	**22.6**	**25.1**	**26.5**	**28.1**
EBIT	**12.7**	**13.8**	**4.8**	**3.5**	**4.8**	**5.2**	**18.2**	**3.9**	**3.7**	**5.2**	**6.2**	**19.1**	**22.7**	**24.5**	**26.6**
Net financial items	-0.7	-1.4	-0.3	-0.3	-0.3	-0.4	-1.3		-0.3	-0.3	-0.2	-1.2	-0.6	-0.3	-0.3
PTP	**12.1**	**12.4**	**4.5**	**3.1**	**4.5**	**4.8**	**16.9**		**3.4**	**5.0**	**6.0**	**17.9**	**22.1**	**24.2**	**26.3**
Taxes	-2.5	-2.6	-1.0	-0.7	-1.1	-0.8	-3.6		-0.7	-1.0	-1.2	-3.6	-4.4	-4.8	-5.3
Net earnings	**9.6**	**9.9**	**3.4**	**2.4**	**3.5**	**4.0**	**13.3**	**2.7**	**2.8**	**4.0**	**4.8**	**14.3**	**17.7**	**19.4**	**21.0**
EPS (adj.)	**0.48**	**0.47**	**0.15**	**0.12**	**0.15**	**0.17**	**0.60**	**0.13**	**0.14**	**0.17**	**0.20**	**0.64**	**0.73**	**0.78**	**0.83**
EPS (rep.)	**0.36**	**0.37**	**0.13**	**0.09**	**0.13**	**0.15**	**0.50**	**0.10**	**0.10**	**0.15**	**0.18**	**0.53**	**0.66**	**0.72**	**0.78**

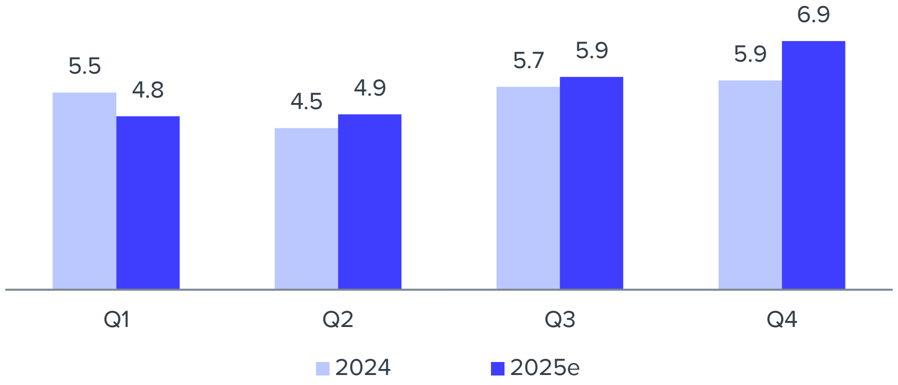
Key figures	2022	2023	Q1'24	Q2'24	Q3'24	Q4'24	2024	Q1'25	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e	2028e
Revenue growth-%	9.5 %	12.5 %	7.2 %	8.8 %	10.8 %	2.6 %	7.1 %	0.2 %	4.1 %	10.8 %	11.0 %	6.4 %	7.7 %	3.4 %	4.8 %
EBITA (oik.) kasvu		7.4 %	13%	33%	55%	12%	26%	-12%	8%	5%	19%	5.1 %	10.7 %	5.8 %	5.8 %
EBITA-% (oik.)	9.3 %	8.9 %	10.3 %	8.7 %	12.5 %	10.7 %	10.5 %	9.0 %	9.0 %	11.8 %	11.5 %	10.3 %	10.6 %	10.9 %	11.0 %
EBIT-%	7.5 %	7.2 %	8.9 %	6.6 %	10.6 %	9.5 %	8.9 %	7.2 %	6.8 %	10.4 %	10.3 %	8.7 %	9.6 %	10.1 %	10.4 %
Net earnings-%	5.6 %	5.1 %	6.4 %	4.7 %	7.6 %	7.3 %	6.5 %	5.1 %	5.1 %	7.9 %	8.0 %	6.5 %	7.5 %	7.9 %	8.2 %

Source: Inderes

Revenue and EBIT-% (adj.)



Adjusted EBIT development



Investment profile

1. Profile strengthened into an earnings growth company
2. Good track record in executing the long-term strategy
3. The next phase of the growth strategy has begun, with investments decreasing and scalability expected
4. Well-positioned as a provider of comprehensive solutions
5. Strong medium- and long-term growth fundamentals in the market

Potential

- Strongly growing markets in the medium and long term, a challenging market increases uncertainty in the short term
- Market trends are favorable for Digia's expertise, and the overall offering has synergy potential
- Increasing share of scalable business
- Growth in the share of recurring business
- M&A
- Internationalization and the use of the Polish nearshore

Risks

- Impact of a weak economic cycle on the IT services market
- Project risks and customers' bargaining power
- Swelling investments and failure to grow a scalable business
- M&A
- Internationalization
- Failure to attract employees

Valuation 1/4

Investment perspective – multiple value drivers

Digia has strengthened its profile as an earnings growth company and has risen to become one of the sector's top performers, which supports the share valuation. In the short term, however, market weakness is limiting the IT services sector. Despite the weakness of the market, Digia only accelerated its growth in 2023 (organic growth of 9% vs. sector 0%) and continued to outperform the sector in 2024 as well (organic 3% vs. sector -3%).

Digia's risk profile is low compared to the sector due to the company's broad offering and customer base, the large share of recurring revenue and, consequently, the stable business. The company's profile, compared to IT service companies that have grown in the digital age, is distinguished by a more comprehensive offering, a large share of recurring revenue and a relatively large share of proprietary products. In our view, Digia is currently one of the top performers in the sector in terms of growth and profitability profile (Rule of 20), which supports a higher valuation than the IT services sector.

Value creation is driven by revenue growth and improved profitability. There is still more potential in profitability than in our forecasts, but this requires evidence of the productivity of investments and support from a better market situation. In the long term, we believe that Digia's value creation will stem from success in organic growth, synergies in service areas, improved efficiency, growth in scalable business and overall competitiveness, which together determine the key driver of earnings growth. In the long term, we also consider Digia a potential takeover target as the active consolidation of the IT market continues.

Over the past 9 years, Digia has made 15 acquisitions, reshaping its offering and clearly strengthening its competitiveness. In the big picture, the acquisitions have been successful and thus value-creating. At the same time, the company has been one of the most efficient employers of the balance sheet in the sector, as the company has also used leverage and then repaid the debt rapidly.

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

- Growing markets in the medium and long term
- Market trends have shifted to be more favorable for Digia's strengths and overall offering
- Potential to improve profitability
- Nearshore capabilities improve price competitiveness
- Increasing scalable business
- Recurring services and proprietary product business
- M&A

Correspondingly, in our view, the key risks and factors that could negatively affect the valuation are:

- Risks related to success in recruitment related to organic growth
- Failure to maintain and/or improve the competitiveness of own products, and consequently, failure in the growth and scalability of products
- Unsuccessful internationalization
- Integrations of acquisitions and potentially high valuations of new ones
- Project risks of large projects

Valuation 2/4

Peer group

In our view, Digia should be positioned among the Nordic IT service companies as an established player with a broad offering, its own products and just over half of recurring business. We believe that a good Nordic peer group can be found for Digia, against which the valuation can be mirrored and supported. 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. Digia has gained a similar peer after Vincit and Bilot merged. In addition, Netum shares several characteristics with Digia.

In the sector, we generally favor adjusted EV/EBIT ratios due to good comparability and strong balance sheets. However, with a continuedly sluggish 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. 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. 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.

In our view, Digia's share can be assigned a higher valuation level than the Finnish sector in a normal business environment, due to its stable business, better profitability than the sector, good prospects and the increase in scalable business.

Digia is valued at approximately 25% below its Finnish peers with 2025 EV/EBIT and P/E ratios, and also 20% below with the corresponding 2026 ratios. Thus, the company is still relatively very attractively valued. The company's earnings level can be considered relatively stable in the sector context, as a large part of the company's revenue is recurring (the share of service and maintenance business was 50% in Q1'25).

Sector valuation measured by the *Rule of 20*

We also examine the valuation of the sector's companies measured by the *Rule of 20* that we launched earlier this year and compare this to the EV/Revenue multiple. In our view, this serves as a new and interesting angle to look at the sector's valuation levels.

For the comparison, we used the 2025 forecasts for the companies we follow. This year, Digia is the best in the sector based on the Rule of 20 and has historically been consistently among the top performers. Measured by the EV/Sales multiple, Digia is valued above the sector, but when the company's good profitability and organic growth are taken into account — i.e. when both the Rule of 20 and the EV/S multiple are considered — Digia is below the fair value line in the comparison. Based on this method, the company is thus attractively valued.

Peer group valuation	EV/EBIT		P/E	
	2025e	2026e	2025e	2026e
Digia (Inderes)	9.1	7.6	11.4	10.0
Average	13.4	9.8	18.2	13.7
Median all	13.7	9.5	18.2	13.4
Diff-% to all median	*-34%*	*-20%*	*-37%*	*-25%*
Median Finnish	12.5	9.4	14.5	12.6
Diff-% to Finnish median	*-27%*	*-19%*	*-21%*	*-20%*

Source: Refinitiv and *adjusted Inderes' estimate/Inderes. NB! The market value used by Inderes does not take into consideration treasury shares.

The valuation of the peer group

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
Company	**MEUR**	**MEUR**	**2025e**	**2026e**	**2025e**	**2026e**	**2025e**	**2026e**	**2025e**	**2026e**	**2025e**	**2026e**
Digital Workforce*	36	25	23.4	9.3	60.7	9.0	0.8	0.7	30.4	13.9	1.9	2.8
Gofore*	290	248	12.9	10.2	11.2	8.6	1.4	1.3	18.2	15.3	2.7	2.8
Loihde*	66	73	16.6	11.0	6.6	5.2	0.5	0.5	19.4	13.3	5.1	6.3
Innofactor*	61	66	11.7	9.4	7.6	6.4	0.8	0.7	14.5	11.9	5.3	5.9
Netum Group*	24	29	8.1	7.3	7.7	7.0	0.7	0.7	13.8	11.6	6.3	7.3
Siili Solutions*	52	48	7.9	6.2	5.3	4.0	0.4	0.4	11.4	9.2	3.1	3.6
Solteq*	13	34	14.7	9.7	8.6	6.9	0.7	0.7		26.7		
Tietoevry	1918	2724	12.2	10.8	11.6	9.4	1.5	1.5	13.0	11.0	8.1	8.2
Vincit*	28	20	7.8	5.1	8.9	4.3	0.3	0.3	14.5	9.1	7.1	7.7
Witted Megacorp*	25	16	14.5	8.0	13.9	7.8	0.3	0.3	23.9	14.7	1.3	1.3
Avensia AB	42	45	11.2	8.4	7.3	6.8	1.1	1.0	13.3	9.6	4.0	
Bouvet	691	706	16.2	14.4	13.3	12.1	2.0	1.8	20.5	18.3	4.8	5.1
CombinedX	75	73	8.8	7.6	5.4	4.8	0.8	0.8	11.8	9.9		
Exsitec	146	176	15.7	13.5	10.0	8.9	2.1	1.9	19.5	16.5	1.7	1.9
Knowit	330	387	20.1	12.8	7.8	6.5	0.7	0.7	27.8	15.7	2.3	3.8
Netcompany Group	1901	2207	17.4	14.6	13.0	11.3	2.3	2.2	21.1	16.6		0.1
NNIT	233	266	14.5	10.6	11.0	8.4	1.1	1.0	24.9	13.4		
Webstep	58	54	8.4	7.4	6.9	6.2	0.7	0.7	11.1	9.9	9.3	7.8
Digia (Inderes)	**197**	**206**	**9.1**	**7.6**	**7.9**	**6.6**	**0.9**	**0.8**	**11.4**	**10.0**	**2.6**	**2.9**
Average			**13.4**	**9.8**	**12.0**	**7.4**	**1.0**	**0.9**	**18.2**	**13.7**	**4.5**	**4.6**
Median all			**13.7**	**9.5**	**8.7**	**7.0**	**0.8**	**0.7**	**18.2**	**13.4**	**4.4**	**4.4**
Diff-% to median all			*-34%*	*-20%*	*-10%*	*-5%*	*17%*	*13%*	*-37%*	*-25%*	*-41%*	*-35%*
Finnish median			**12.5**	**9.4**	**8.7**	**7.0**	**0.7**	**0.7**	**14.5**	**12.6**	**5.1**	**5.9**
Diff-% to Finnish median			*-27%*	*-19%*	*-10%*	*-5%*	*35%*	*22%*	*-21%*	*-20%*	*-50%*	*-51%*

Source: Refinitiv / *Inderes' adjusted forecast.
Note: The market capitalization used by Inderes does not take into account the company's own shares held by the company.

Valuation 3/4

Multiple-based valuation

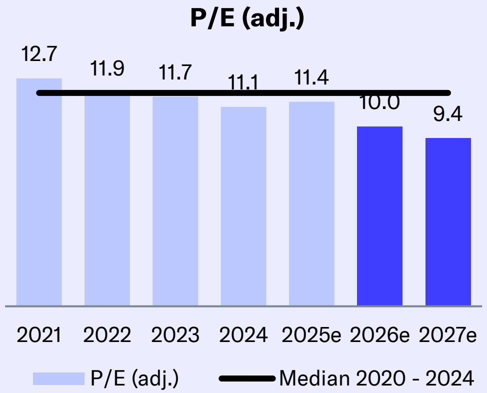
Digia's valuation can currently be monitored well through all earnings-based valuation multiples. The valuation multiples we primarily use in the sector and for Digia are adjusted P/E and EV/EBIT multiples. Historically, Digia has made very few cash flow-related adjustments. Adjustments are particularly justified when comparing the company to its peers. With the Savangard acquisition, the 2026 multiples give a slightly better picture of the new entity. However, 2025 is still a good, albeit more conservative, checkpoint.

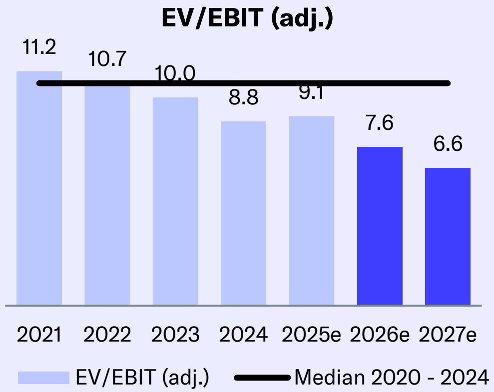
With our forecasts, Digia's EV/EBIT and adjusted P/E ratios for 2025 are 9x and 11x, respectively. We view the 2025 valuation level as moderate in absolute terms. The corresponding 2026 multiples, which take into account the entire Savangard acquisition, are 8x and 10x. We view the 2026 valuation level as almost very moderate in absolute terms. Relative to the good and stable earnings growth outlook and the large share of recurring services and maintenance (~50%), the valuation can even be described as very attractive. Our target price corresponds to P/E and EV/EBITA multiples of 9x and 11x for 2026e.

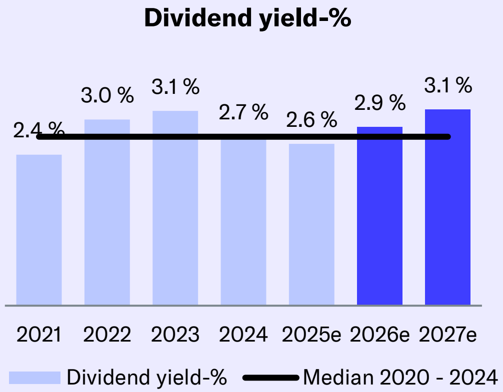
In general, the valuation level of the IT services sector has been under pressure for the past couple of years due to geopolitical risks, rising interest rates and the general weak economic situation. The weak market situation has been reflected in the sector's earnings levels, which has also weighed on the sector's valuation levels. Considering the still good demand outlook in the medium and long term, we consider the valuation level of the sector as a whole to be attractive.

Valuation	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Share price	7.04	5.71	5.46	6.66	**7.34**	**7.34**	**7.34**	**7.34**
Number of shares, millions	26.7	26.7	26.8	26.8	**26.8**	**26.8**	**26.8**	**26.8**
Market cap	188	152	146	179	**197**	**197**	**197**	**197**
EV	199	170	171	190	**206**	**191**	**175**	**159**
P/E (adj.)	12.7	11.9	11.7	11.1	**11.4**	**10.0**	**9.4**	**8.9**
P/E	16.0	15.9	14.8	13.4	**13.8**	**11.1**	**10.2**	**9.4**
P/B	2.8	2.1	1.9	2.1	**2.1**	**1.9**	**1.6**	**1.5**
P/S	1.2	0.9	0.8	0.9	**0.9**	**0.8**	**0.8**	**0.8**
EV/Sales	1.3	1.0	0.9	0.9	**0.9**	**0.8**	**0.7**	**0.6**
EV/EBITDA	9.0	8.6	8.1	7.5	**7.9**	**6.6**	**5.8**	**5.0**
EV/EBIT (adj.)	11.2	10.7	10.0	8.8	**9.1**	**7.6**	**6.6**	**5.7**
Payout ratio (%)	38.6 %	47.4 %	46.2 %	36.3 %	**35.6 %**	**31.9 %**	**31.9 %**	**31.9 %**
Dividend yield-%	2.4 %	3.0 %	3.1 %	2.7 %	**2.6 %**	**2.9 %**	**3.1 %**	**3.4 %**

Source: Inderes







Valuation 4/4

Components of the expected return for the share

We look at the expected return on the Digia share in terms of earnings growth, dividend yield and accepted valuation multiples. In our view, the company has the potential for annual earnings growth of around 10% (CAGR 2025-2027) in the coming years, driven by revenue growth and improved profitability. With our dividend forecasts at the lower end of the guidance (at least 30% of profits) at ~35% of profits, the dividend yield is at the 3% level. The strong cash flow provides a good basis for a relatively high dividend payout, but we estimate that the company will repay debt and continue to pursue inorganic growth, which is why our dividend forecasts are low.

We see the 2025 multiples as moderate. Consequently, the return expectation, which currently consists of the share's dividend yield, earnings growth and moderate upside potential in valuation multiples, rises to over 15% per annum. The expected return clearly exceeds the cost of equity.

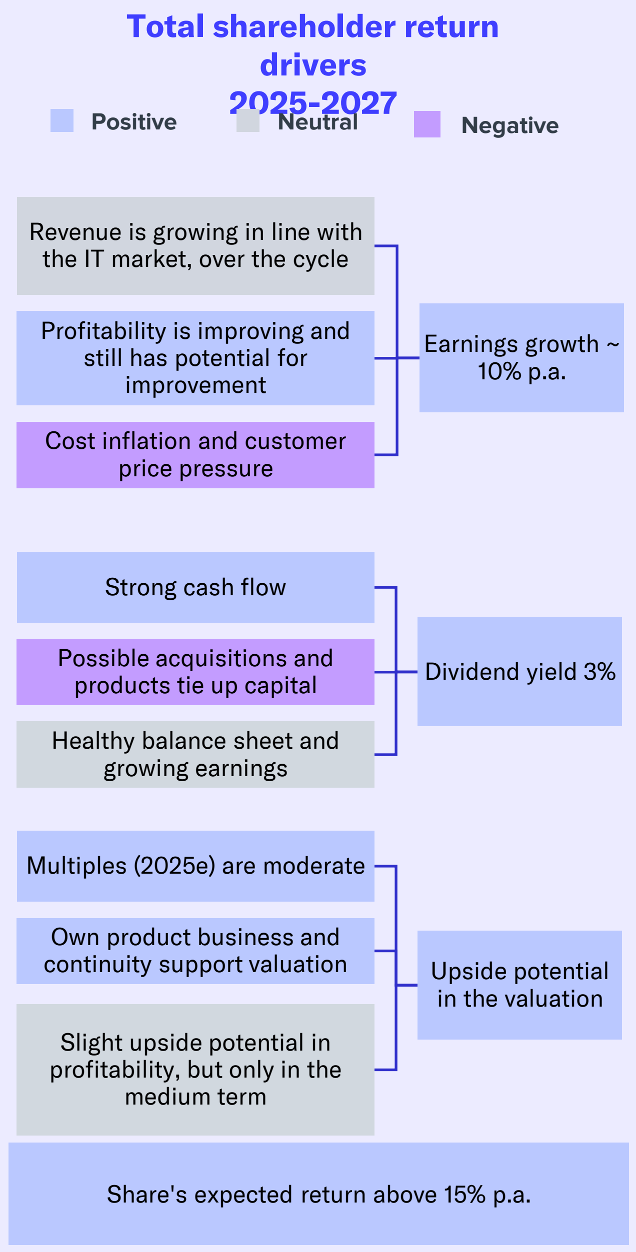
DCF analysis

In our valuation, we still give more weight to valuation multiples than to the cash flow model, even though the company's business development is stable and improves the reliability of the cash flow model. Our DCF model indicates a value of EUR 9.0 per Digia share. In our forecast model, the company grows at an average rate of 4.1% between 2025 and 2033, and 1.5% in the long term. In addition, the EBITA margin is 10-11% until 2029, after which it will decrease to 8.5% in the terminal, which reflects only slightly better profitability than the sector average and a weaker level than in recent years for the company. The weight of the terminal value in the model is relatively small (48%). The weighted average cost of capital (WACC) we use in the cash flow model is 8.7%.

The cash flow calculation thus clearly indicates a higher level than the current one, which would even support a strong positive view on the stock.

Valuation summary

Based on the valuation methods we have applied, the share is attractively or very attractively priced from almost every perspective. When examining our cash flow calculation and relative valuation level, the stock is very attractively priced. In addition, the company's risk profile is among the lowest in the sector. In summary, we see the fair value of the share in the range of EUR 8-9 per share.



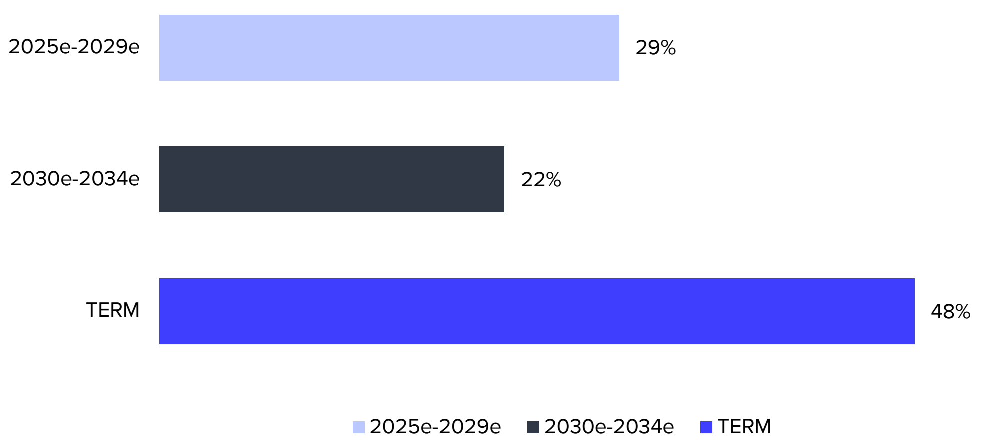
DCF calculation

DCF model	2024	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	TERM
Revenue growth-%	7.1 %	6.4 %	7.7 %	3.4 %	4.8 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	1.5 %	1.5 %
EBIT-%	8.9 %	8.7 %	9.6 %	10.1 %	10.4 %	10.5 %	10.0 %	9.5 %	9.0 %	8.5 %	8.5 %	8.5 %
EBIT (operating profit)	**18.2**	**19.1**	**22.7**	**24.5**	**26.6**	**27.6**	**27.1**	**26.5**	**25.9**	**25.2**	**25.5**	
+ Depreciation	7.2	7.0	6.2	5.9	5.4	5.0	5.0	4.1	6.0	4.2	4.1	
- Paid taxes	-4.2	-4.0	-4.8	-4.8	-5.3	-5.5	-5.4	-5.2	-5.1	-5.0	-5.0	
- Tax, financial expenses	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
+ 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	
- Change in working capital	3.0	0.6	0.8	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.2	
Operating cash flow	**23.9**	**22.4**	**24.7**	**25.8**	**27.2**	**27.5**	**27.0**	**25.7**	**27.1**	**24.7**	**24.7**	
+ Change in other long-term liabilities	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-1.3	-14.2	-4.1	-4.2	-4.3	-4.3	-4.4	-4.5	-4.5	-4.5	-5.0	
Free operating cash flow	**19.1**	**8.2**	**20.6**	**21.7**	**22.9**	**23.1**	**22.6**	**21.2**	**22.6**	**20.1**	**19.7**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	19.1	8.2	20.6	21.7	22.9	23.1	22.6	21.2	22.6	20.1	19.7	278
Discounted FCFF		**7.9**	**18.2**	**17.5**	**17.1**	**15.8**	**14.3**	**12.3**	**12.0**	**9.9**	**8.9**	**126**
Sum of FCFF present value		259	252	233	216	199	183	169	156	144	134	126
Enterprise value DCF		**259**										
- Interest bearing debt		-29.9										
+ Cash and cash equivalents		18.2										
-Minorities		0.0										
-Dividend/capital return		-4.8										
Equity value DCF		**243**										
Equity value DCF per share		**9.1**										

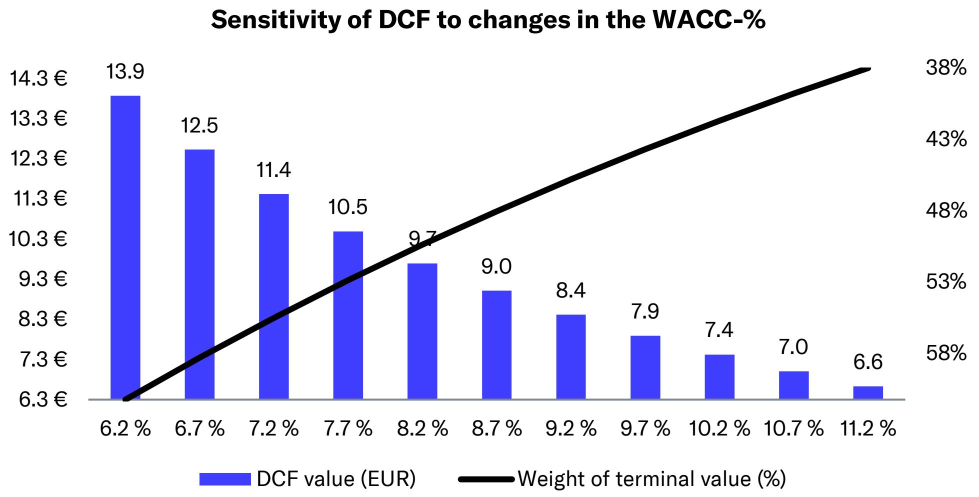
WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	20.0 %
Cost of debt	6.0 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.5 %
Cost of equity	**9.7 %**
Weighted average cost of capital (WACC)	**8.7 %**

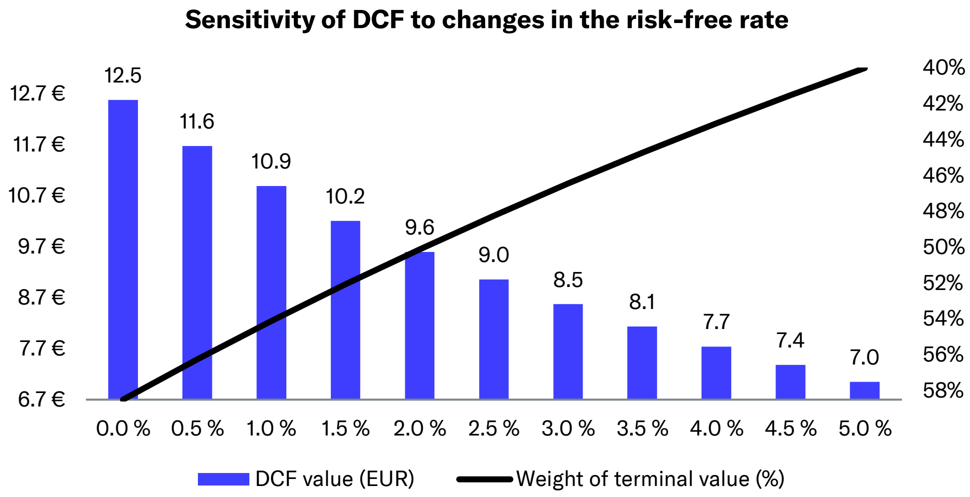
Source: Inderes

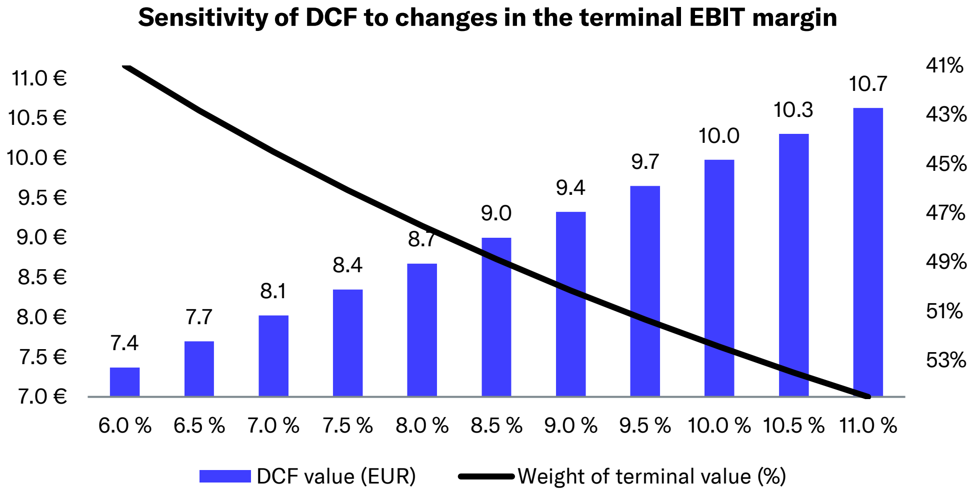
Cash flow distribution

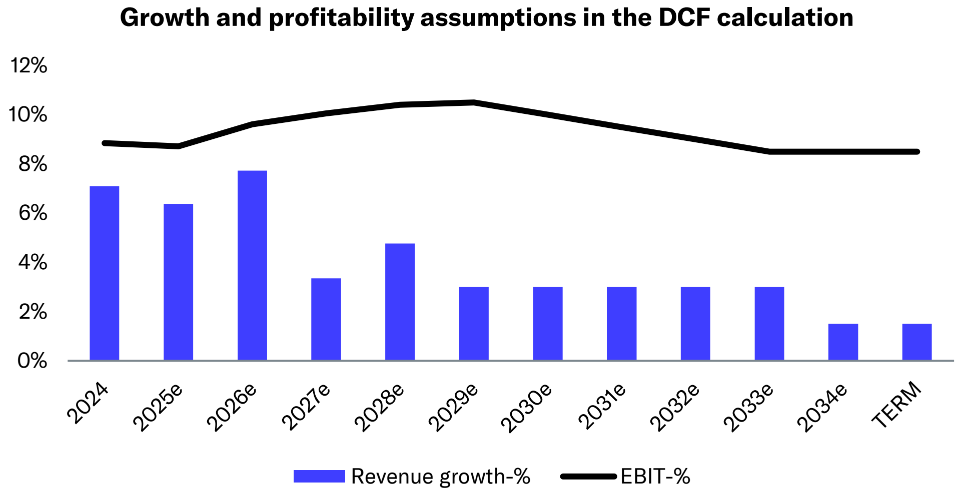


DCF sensitivity calculations and key assumptions in graphs









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

Summary

Income statement	2022	2023	2024	2025e	2026e
Revenue	170.8	192.0	205.7	**218.8**	**235.7**
EBITDA	19.8	21.1	25.4	**26.0**	**28.9**
EBIT	12.7	13.8	18.2	**19.1**	**22.7**
PTP	12.1	12.4	16.9	**17.9**	**22.1**
Net Income	9.6	9.9	13.3	**14.3**	**17.7**
Extraordinary items	-3.2	-3.3	-3.3	**-3.6**	**-2.4**

Balance sheet	2022	2023	2024	2025e	2026e
Balance sheet total	160.1	168.2	163.5	**167.9**	**172.5**
Equity capital	71.1	75.4	83.7	**93.2**	**105.8**
Goodwill	85.8	93.3	92.8	**92.8**	**92.8**
Net debt	17.6	24.8	11.6	**9.2**	**-5.9**

Cash flow	2022	2023	2024	2025e	2026e
EBITDA	19.8	21.1	25.4	**26.0**	**28.9**
Change in working capital	2.2	-4.5	3.0	**0.6**	**0.8**
Operating cash flow	20.3	13.8	23.9	**22.4**	**24.7**
CAPEX	-23.2	-12.5	-1.3	**-14.2**	**-4.1**
Free cash flow	0.1	-0.5	19.1	**8.2**	**20.6**

Valuation multiples	2022	2023	2024	2025e	2026e
EV/S	1.0	0.9	0.9	**0.9**	**0.8**
EV/EBITDA	8.6	8.1	7.5	**7.9**	**6.6**
EV/EBIT (adj.)	10.7	10.0	8.8	**9.1**	**7.6**
P/E (adj.)	11.9	11.7	11.1	**11.4**	**10.0**
P/B	2.1	1.9	2.1	**2.1**	**1.9**
Dividend-%	3.0 %	3.1 %	2.7 %	**2.6 %**	**2.9 %**

Source: Inderes

Per share data	2022	2023	2024	2025e	2026e
EPS (reported)	0.36	0.37	0.50	**0.53**	**0.66**
EPS (adj.)	0.48	0.47	0.60	**0.64**	**0.73**
OCF / share	0.76	0.52	0.89	**0.84**	**0.92**
OFCF / share	0.01	-0.02	0.71	**0.31**	**0.77**
Book value / share	2.66	2.81	3.12	**3.47**	**3.94**
Dividend / share	0.17	0.17	0.18	**0.19**	**0.21**

Growth and profitability	2022	2023	2024	2025e	2026e
Revenue growth-%	9%	12%	7%	**6%**	**8%**
EBITDA growth-%	-11%	7%	20%	**3%**	**11%**
EBIT (adj.) growth-%	-12%	7%	26%	**3%**	**15%**
EPS (adj.) growth-%	-13%	-3%	28%	**7%**	**14%**
EBITDA-%	11.6 %	11.0 %	12.4 %	**11.9 %**	**12.2 %**
EBIT (adj.)-%	9.2 %	8.7 %	10.3 %	**10.0 %**	**10.6 %**
EBIT-%	7.5 %	7.2 %	8.9 %	**8.7 %**	**9.6 %**
ROE-%	13.8 %	13.5 %	16.7 %	**16.2 %**	**17.8 %**
ROI-%	12.7 %	12.8 %	16.1 %	**16.7 %**	**19.6 %**
Equity ratio	44.4 %	44.9 %	51.2 %	**55.5 %**	**61.3 %**
Gearing	24.8 %	32.8 %	13.9 %	**9.8 %**	**-5.6 %**

The market cap and enterprise value in the table consider the expected change in the number of shares and net debt for the forecast years. Per-share figures are calculated using the number of shares at year-end.

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

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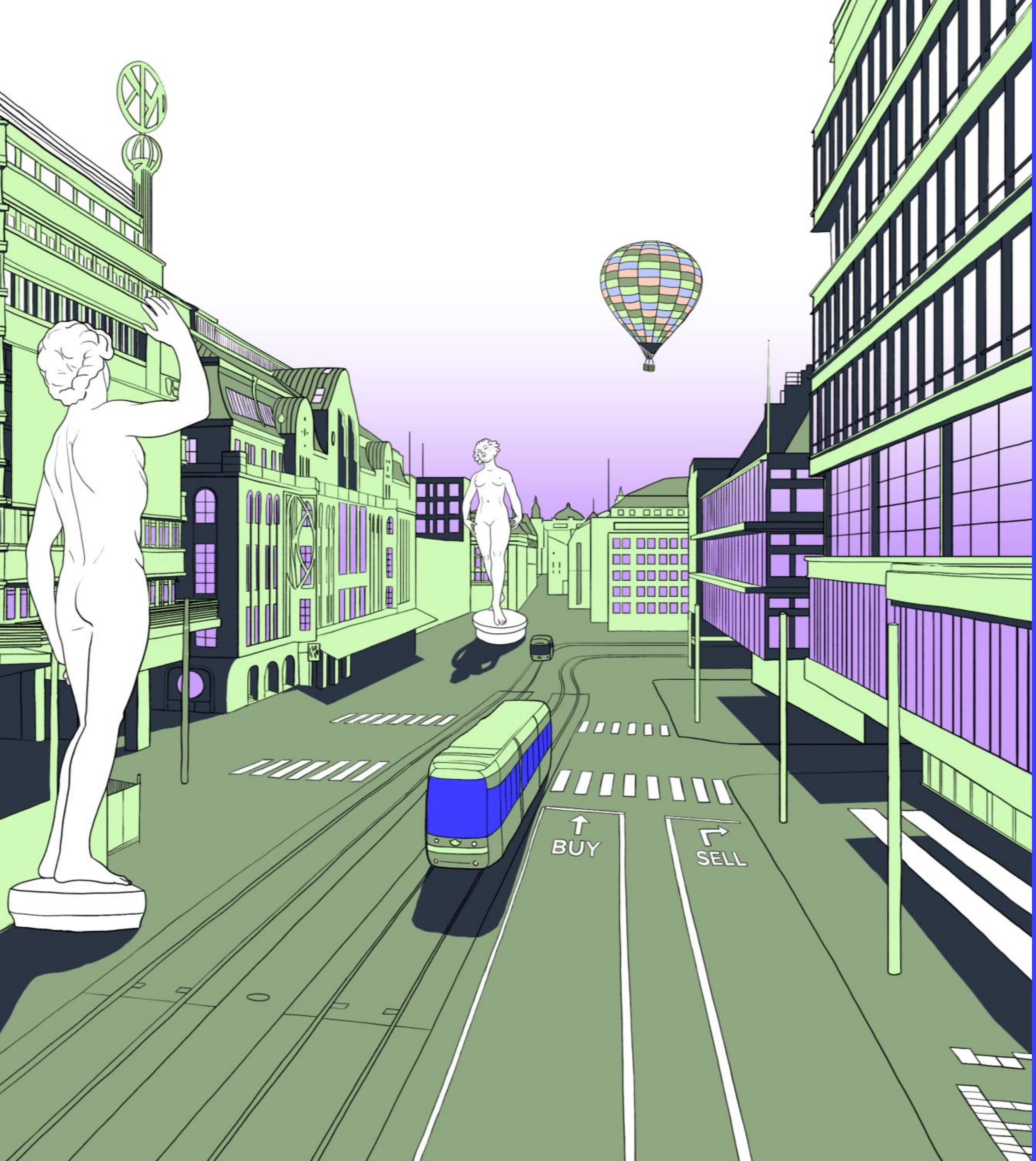
Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
8/12/2019	Buy	4.00 €	3.48 €
9/9/2019	Reduce	4.00 €	4.02 €
10/29/2019	Accumulate	4.00 €	3.72 €
11/1/2019	Accumulate	4.00 €	3.82 €
2/10/2020	Accumulate	5.20 €	4.90 €
5/8/2020	Accumulate	5.70 €	5.24 €
6/15/2020	Accumulate	5.70 €	4.99 €
8/12/2020	Accumulate	6.40 €	6.00 €
11/2/2020	Reduce	6.90 €	6.84 €
12/16/2020	Accumulate	7.20 €	6.34 €
2/10/2021	Reduce	8.40 €	8.56 €
3/16/2021	Accumulate	8.40 €	7.28 €
5/5/2021	Reduce	8.60 €	8.40 €
7/8/2021	Accumulate	8.60 €	7.61 €
8/9/2021	Accumulate	8.40 €	7.68 €
9/2/2021	Accumulate	8.40 €	7.53 €
10/19/2021	Accumulate	8.10 €	7.02 €
11/1/2021	Accumulate	8.10 €	6.90 €
2/9/2022	Accumulate	8.10 €	7.45 €
5/5/2022	Accumulate	8.40 €	7.25 €
8/10/2022	Accumulate	8.00 €	7.10 €
10/31/2022	Reduce	6.50 €	6.24 €
2/13/2023	Reduce	6.50 €	6.48 €
5/5/2023	Buy	6.80 €	5.56 €
8/4/2023	Accumulate	6.80 €	5.76 €
8/11/2023	Accumulate	6.60 €	5.88 €
9/27/2023	Accumulate	6.60 €	5.58 €
10/30/2023	Accumulate	5.80 €	4.89 €
11/16/2023	Accumulate	6.20 €	5.52 €
2/12/2024	Accumulate	6.20 €	5.24 €
5/10/2024	Accumulate	6.40 €	5.62 €
8/12/2024	Accumulate	6.40 €	5.58 €
10/28/2024	Buy	7.30 €	5.92 €
2/26/2025	Accumulate	7.80 €	6.96 €
4/28/2025	Buy	7.80 €	6.22 €
5/9/2025	Buy	8.30 €	6.54 €
6/5/2025	Accumulate	8.30 €	7.34 €



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