

Digital Workforce

Company report

8/18/2023



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✓ Inderes corporate customer

This report is a summary translation of the report “Odotamme kasvun olleen hyvää ja kannattavuuden parantuneen selvästi H1:llä” published on 8/18/2023 at 9:20 am EEST.

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We expect good growth and significant profitability improvements in H1

According to our information, the software robotics automation pioneer Digital Workforce will publish its half-year results on Wednesday at 9.00 am (EEST). We expect revenue to grow well, driven by strategic Continuous services. We forecast a clear improvement in profitability, although it will continue to be constrained by investments into the company's own platform and internationalization. We reiterate our target price of EUR 5.5 on Digital Workforce, while lowering the recommendation to Accumulate (was Buy), as the share price has gone up.

We expect growth to have continued at a good pace, although slowing slightly from H2 in organic terms

We expect the company's revenue to grow by 20% to EUR 14.4 million in H1. We forecast organic growth to be good (+12%), although slowing slightly from 16% in H2'22. We expect growth to be driven by strategically important Continuous services (+29% or 9.2 MEUR) and a more moderate increase in Professional services (7% or 5.2 MEUR). Organically, we estimate that Professional services have grown by only 2%. In general, the tight market situation creates uncertainty in our estimates, but on the other hand, new orders have been received and new cooperation agreements have been signed in H1. In addition, the high share of continuous revenue provides a cushion against uncertainty. Geographically, we expect the key growth markets of the UK and the US to continue to show the best growth, while in the main Nordic markets we expect growth to be more moderate, like last year. In terms of growth, we will follow in particular the growth of Continuous services at the heart of the company's strategy and, geographically, the development of the UK and the US.

Profitability should have improved significantly in H1

The efficiency measures communicated by Digital Workforce last summer quickly affected the cost base in H2'22. We forecast an EBITDA margin of EUR 0.2 million or 2% of revenue in H1 (H1'22 -13% and H2'22 -1%). The result will continue to be constrained by strategic investments in the proprietary platform, sales and marketing activities, particularly in the US, as well as general cost increases. The company's small depreciation consists mainly of earlier product development depreciation and a small acquisition. On the other lines, we don't expect any surprises or changes. We forecast EPS of EUR 0.00 for H1 (H2 EBITDA -1.0 MEUR).

We expect the company to repeat its cautious guidance

The company expects net sales growth to continue and the adjusted EBITDA to be positive in 2023, which based on market comments seems cautious. The company said in its 2022 financial statements that it will continue to invest in growth markets, but with greater vigilance than before. We expect that the company's revenue will grow by 19% and EBITDA will be 4% in 2023 (Q4: 18% and 14%). The company also issued new medium-term targets in connection with the financial statements.

Rising share price leads to easing of the gas pedal ahead of H1 report

The share price increase (12%) has unwound the sharpest undervaluation of the stock, especially given the general market uncertainty. Digital Workforce's 2023-24e EV/S ratios are 1.2x-1.0x. In light of our revenue growth estimate (CAGR: ~20%) and profitability potential (EBITA >15%) the valuation is moderate in our view after the investment phase. Our DCF model (EUR 8.4) and the sum-of-the-parts calculation (EUR 5.6) also indicate a clear upside in the share. With the profitability focus, earnings-based multiples will also start supporting the valuation in a few years (2025e adj. EBIT 11% -> EV/EBIT 7x).

Recommendation

Accumulate

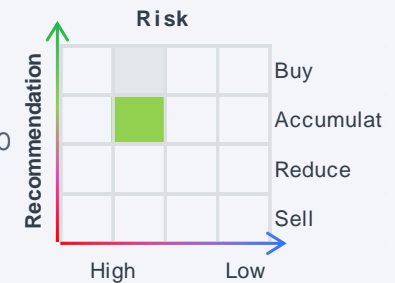
(previous Buy)

EUR 5.50

(previous EUR 5.50)

Share price:

4.75



Key figures

	2022	2023e	2024e	2025e
Revenue	25.5	30.2	36.2	43.4
growth-%	14%	19%	20%	20%
EBIT adj.	-1.3	0.8	2.4	4.6
EBIT-% adj.	-5.0 %	2.7 %	6.5 %	10.5 %
Net Income	-3.0	0.7	2.1	3.9
EPS (adj.)	-0.15	0.06	0.19	0.34

P/E (adj.)	neg.	77.2	25.3	13.8
P/B	2.9	3.3	2.9	2.4
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	45.4	15.0	6.8
EV/EBITDA	neg.	32.5	13.1	6.3
EV/S	1.1	1.2	1.0	0.7

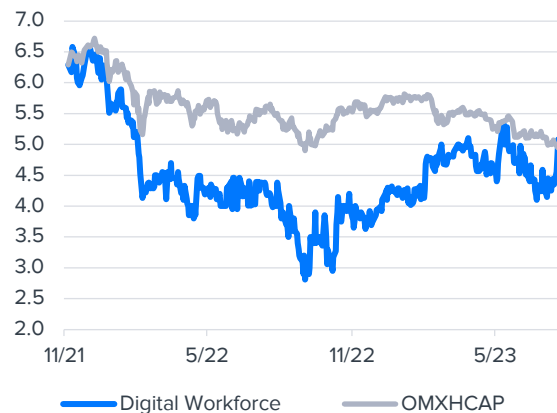
Source: Inderes

Guidance

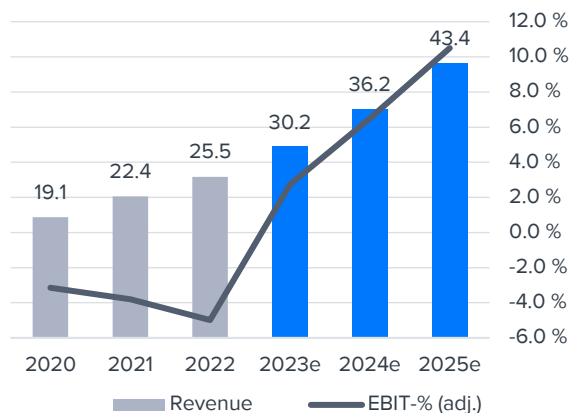
(Unchanged)

Digital Workforce's full-year 2023 revenue is expected to be higher than in 2022 and profitability is expected to be positive on an adjusted EBITDA basis.

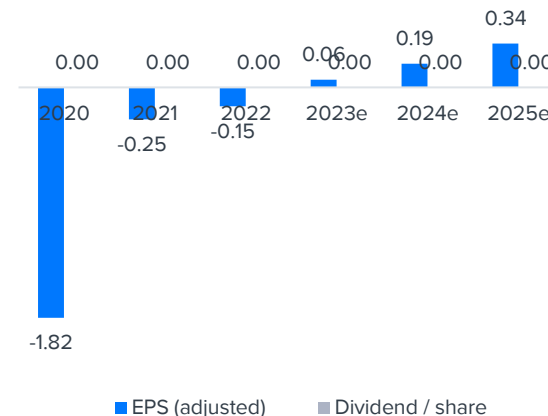
Share price



Revenue and EBIT-%



EPS and dividend



Value drivers

- Success in new markets (US and UK) and accelerating growth
- Commercialization of the self-service platform will open clear new market potential and enable accelerated growth
- Increasing the revenue share of Continuous services with better margins drives earnings growth and makes the investor profile more attractive
- Improving scalability
- Acquisitions



Risk factors

- Success of the growth strategy especially in the US
- Building the self-service facility of the platform
- Productivity of investments
- Developing large RPA technologies and their expansion to maintenance
- Reacting to market and technological changes
- Development of the employee image and success in recruitment
- Wage inflation and managing attrition
- Acquisitions

Valuation	2023e	2024e	2025e
Share price	4.75	4.75	4.75
Number of shares, millions	11.2	11.2	11.2
Market cap	53	53	53
EV	38	35	31
P/E (adj.)	77.2	25.3	13.8
P/E	77.2	25.3	13.8
P/FCF	>100	22.4	12.7
P/B	3.3	2.9	2.4
P/S	1.8	1.5	1.2
EV/Sales	1.2	1.0	0.7
EV/EBITDA	32.5	13.1	6.3
EV/EBIT (adj.)	45.4	15.0	6.8
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

We expect good growth and significant profitability improvements

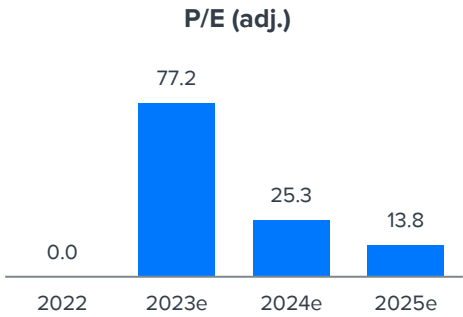
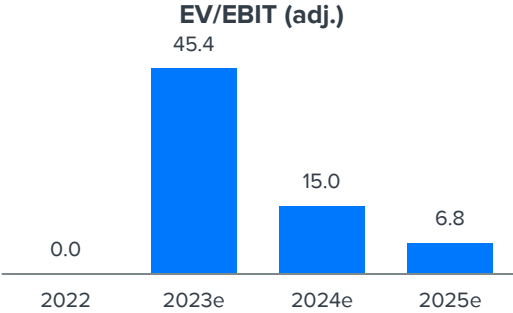
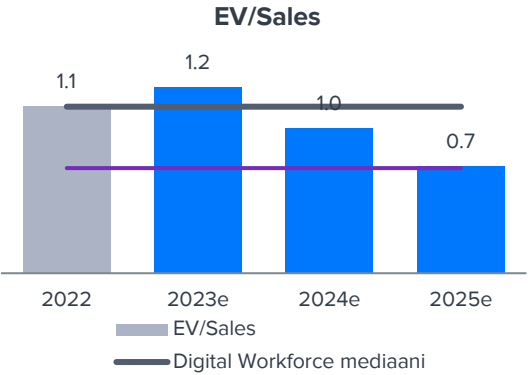
Estimates	H1'22	H1'23	H1'23e	H1'23e	Consensus		2023e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Inderes
Revenue	12.0		14.4				30.2
EBITDA	-1.6		0.2				1.2
EBIT	-1.7		0.1				0.8
PTP	-1.9		0.0				0.7
EPS (reported)	-0.17		0.00				0.06
Revenue growth-%	7.2 %		20.2 %				18.6 %
EBITDA-%	-13.4 %		1.7 %				3.8 %

Source: Inderes

Valuation table

Valuation	2022	2023e	2024e	2025e	2026e	2027e	2028e
Share price	3.94	4.75	4.75	4.75	4.75	4.75	4.75
Number of shares, millions	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Market cap	44	53	53	53	53	53	53
EV	28	38	35	31	25	17	13
P/E (adj.)	neg.	77.2	25.3	13.8	9.4	7.2	6.8
P/E	neg.	77.2	25.3	13.8	9.4	7.2	6.8
P/FCF	neg.	>100	22.4	12.7	8.9	6.9	6.6
P/B	2.9	3.3	2.9	2.4	1.9	1.5	1.4
P/S	1.7	1.8	1.5	1.2	1.0	0.9	0.8
EV/Sales	1.1	1.2	1.0	0.7	0.5	0.3	0.2
EV/EBITDA	neg.	32.5	13.1	6.3	3.6	1.9	1.3
EV/EBIT (adj.)	neg.	45.4	15.0	6.8	3.7	2.0	1.3
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	50.0 %	50.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	6.9 %	7.4 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
			2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
Admicom*	177	171	13.8	12.7	13.7	12.5	5.0	4.7	18.0	16.8	3.4	3.7	5.6
Efecte*	56	55		45.0	939.2	28.5	2.2	1.9		50.0			15.1
Heeros*	19	21	22.1	10.6	8.1	5.7	1.8	1.6	28.9	13.0			2.4
Leaddesk*	45	48	41.4	19.0	12.2	8.5	1.6	1.4	58.8	26.6			2.9
Qt Group*	1455	1434	28.6	21.3	26.9	20.9	7.7	5.9	36.4	27.5			8.9
Lime Technologies AB	283	299	31.1	25.9	19.7	17.5	6.2	5.5	39.1	32.1	1.2	1.3	12.9
Upsales Technology AB	56	52	22.0	21.2	16.6	15.0	4.3	3.7	29.9	28.0	3.1	3.3	17.7
Carasent ASA	105	51		18.4	15.1	8.0	2.3	2.0	75.8	54.1			1.0
FormPipe Software AB	122	125	31.3	19.3	13.1	10.3	2.8	2.6	44.5	25.2	1.1	1.5	3.1
Digia*	151	164	9.5	8.0	7.6	6.6	0.9	0.8	11.7	10.1	3.4	3.6	1.8
Gofore*	331	307	11.4	9.1	10.5	8.4	1.6	1.3	15.3	13.4	2.4	2.8	3.1
Loihde*	72	52	17.1	7.9	5.7	3.7	0.4	0.3	29.6	14.0	2.4	2.5	0.7
Innofactor*	41	51	9.2	7.1	6.1	5.0	0.6	0.6	11.2	8.4	6.2	7.1	1.5
Netum Group*	43	52	15.6	12.0	13.7	10.7	1.4	1.1	15.7	12.9	3.6	3.9	3.5
Siili Solutions*	94	86	10.0	7.4	7.0	5.7	0.7	0.6	17.6	11.8	2.6	3.2	2.0
Solteq*	22	41		16.9	3.1	4.0	0.7	0.7		36.1		2.7	0.7
Tietoevry*	2600	3228	8.5	7.8	7.4	6.7	1.1	1.0	9.4	8.7	6.8	7.1	1.5
Vincit*	60	51	12.5	8.0	10.9	7.5	0.5	0.5	20.2	12.4	4.6	5.5	1.6
Witted Megacorp*	39	30	144.3	11.1	116.0	10.8	0.5	0.4	116.5	17.6			2.2
Bouvet	567	584	15.6	14.4	13.1	12.3	2.0	1.8	19.9	18.3	4.4	4.8	12.4
CombinedX	43	40	6.2	5.6	4.3	4.0	0.6	0.6	8.9	7.7			
Avensia AB	29	31			21.8	10.7	0.8	0.8	268.0	20.4	1.6	3.2	9.4
Knowit	341	429	16.6	12.6	7.8	6.8	0.7	0.7	19.1	13.9	3.9	4.4	1.0
Netcompany Group	1757	2064	18.7	15.5	14.4	12.6	2.5	2.3	21.6	17.5			3.2
Digital Workforce (Inderes)	53	38	45.4	15.0	32.5	13.1	1.2	1.0	77.2	25.3	0.0	0.0	3.3
Average			24.3	14.6	54.7	10.1	2.0	1.8	41.6	20.7	3.4	3.8	5.0
Median (all)			16.1	12.6	12.6	8.5	1.5	1.2	20.9	17.2	3.4	3.4	2.9
Diff-% to median			<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	-15%	-18%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	12%
Median (software companies)			25.3	19.2	14.4	11.4	2.5	2.3	36.4	27.0	3.1	3.3	4.4
Diff-% to the median			<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	-51%	-57%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	-25%
Median (IT service companies)			14.0	9.1	9.1	7.1	0.7	0.7	19.1	13.6	3.7	3.9	2.0
Diff-% to the median			<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	76%	44%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	67%

Source: Refinitiv and *adj. Inderes estimate / Inderes. NB!

Income statement

Income statement	2020	2021	H1'22	H2'22	2022	H1'23e	H2'23e	2023e	2024e	2025e	2026e
Revenue	19.1	22.4	12.0	13.5	25.5	14.4	15.8	30.2	36.2	43.4	51.6
Professional services	10.1	10.7	4.8	5.7	10.5	5.2	5.8	10.9	11.2	11.4	11.5
Continuous services	9.0	11.7	7.1	7.8	15.0	9.2	10.0	19.3	25.0	32.0	40.0
EBITDA	-0.4	-1.0	-1.6	-0.1	-1.7	0.2	0.9	1.2	2.7	4.9	7.0
Depreciation	-0.2	-0.3	-0.1	-0.8	-0.9	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
EBIT (excl. NRI)	-0.6	-0.8	-1.5	0.3	-1.3	0.1	0.8	0.8	2.4	4.6	6.7
EBIT	-0.6	-1.2	-1.7	-0.9	-2.6	0.1	0.8	0.8	2.4	4.6	6.7
Net financial items	-0.2	-2.3	-0.2	-0.2	-0.4	-0.1	-0.1	-0.1	0.0	0.0	0.0
PTP	-0.8	-3.5	-1.9	-1.1	-3.0	0.0	0.7	0.7	2.3	4.5	6.7
Taxes	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.7	-1.1
Net earnings	-0.9	-3.6	-1.9	-1.1	-3.0	0.0	0.7	0.7	2.1	3.9	5.6
EPS (adj.)	-1.82	-0.25	-0.15	0.00	-0.15	0.00	0.06	0.06	0.19	0.34	0.50
EPS (rep.)	-1.82	-0.62	-0.17	-0.10	-0.27	0.00	0.06	0.06	0.19	0.34	0.50

Key figures	2020	2021	H1'22	H2'22	2022	H1'23e	H2'23e	2023e	2024e	2025e	2026e
Revenue growth-%	11.3 %	17.1 %	8.0 %		13.9 %	20.2 %	17.1 %	18.6 %	19.8 %	20.0 %	18.7 %
EBITDA-%	-2.1 %	-4.3 %	-13.4 %	-0.8 %	-6.7 %	1.7 %	5.8 %	3.8 %	7.4 %	11.3 %	13.7 %
Adjusted EBIT-%	-3.1 %	-3.8 %	-12.7 %	1.9 %	-5.0 %	0.5 %	4.7 %	2.7 %	6.5 %	10.5 %	13.0 %
Net earnings-%	-4.7 %	-16.0 %	-15.7 %	-8.3 %	-11.8 %	0.1 %	4.3 %	2.3 %	5.8 %	8.9 %	10.9 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	0.8	1.6	1.5	1.4	1.3
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.7	1.5	1.4	1.3	1.1
Tangible assets	0.1	0.0	0.1	0.1	0.2
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	25.8	26.3	24.7	28.7	34.8
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	6.0	8.2	8.2	9.8	11.7
Cash and equivalents	19.8	18.1	16.5	18.9	23.1
Balance sheet total	26.5	27.9	26.2	30.1	36.1

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	18.3	15.4	16.1	18.2	22.1
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-9.8	-12.7	-12.0	-9.9	-6.0
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	28.0	28.0	28.0	28.0	28.0
Other equity	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	1.3	2.3	1.0	1.0	1.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	1.3	2.3	1.0	1.0	1.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	6.9	10.2	9.1	10.9	13.0
Short term debt	0.2	0.2	0.0	0.0	0.0
Payables	6.7	10.0	9.1	10.9	13.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	26.5	27.9	26.2	30.1	36.1

DCF calculation

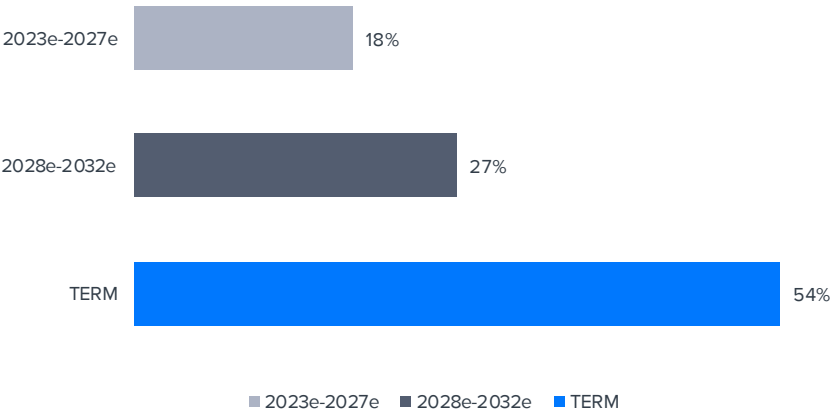
DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	13.9 %	18.6 %	19.8 %	20.0 %	18.7 %	15.0 %	10.0 %	8.0 %	7.0 %	7.0 %	2.0 %	2.0 %
EBIT-%	-10.2 %	2.7 %	6.5 %	10.5 %	13.0 %	15.0 %	15.0 %	15.0 %	15.0 %	15.0 %	15.0 %	15.0 %
EBIT (operating profit)	-2.6	0.8	2.4	4.6	6.7	8.9	9.8	10.6	11.3	12.1	12.3	
+ Depreciation	0.9	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	
- Paid taxes	0.0	0.0	-0.2	-0.7	-1.1	-1.5	-2.0	-2.1	-2.3	-2.4	-2.5	
- Tax, financial expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ 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	1.0	-0.9	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.0	
Operating cash flow	-0.7	0.3	2.6	4.4	6.2	8.0	8.3	8.9	9.6	10.2	10.3	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-1.7	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	
Free operating cash flow	-2.4	0.1	2.4	4.2	6.0	7.7	8.1	8.6	9.3	9.9	9.9	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-2.4	0.1	2.4	4.2	6.0	7.7	8.1	8.6	9.3	9.9	9.9	113
Discounted FCFF		0.1	2.1	3.3	4.2	4.9	4.6	4.5	4.3	4.2	3.7	42.6
Sum of FCFF present value		78.3	78.3	76.2	72.9	68.7	63.8	59.2	54.8	50.4	46.3	42.6
Enterprise value DCF		78.3										
- Interest bearing debt		-2.5										
+ Cash and cash equivalents		18.1										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		93.9										
Equity value DCF per share		8.4										

WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	6.0 %
Equity Beta	1.50
Market risk premium	4.75%
Liquidity premium	2.00%
Risk free interest rate	2.5 %
Cost of equity	11.6 %
Weighted average cost of capital (WACC)	10.9 %

Source: Inderes

Cash flow distribution



Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	19.1	22.4	25.5	30.2	36.2	EPS (reported)	-1.82	-0.62	-0.27	0.06	0.19
EBITDA	-0.4	-1.0	-1.7	1.2	2.7	EPS (adj.)	-1.82	-0.25	-0.15	0.06	0.19
EBIT	-0.6	-1.2	-2.6	0.8	2.4	OCF / share	2.51	-0.43	-0.07	0.03	0.23
PTP	-0.8	-3.5	-3.0	0.7	2.3	FCF / share	2.26	-0.49	-0.22	0.01	0.21
Net Income	-0.9	-3.6	-3.0	0.7	2.1	Book value / share	-1.22	3.18	1.38	1.44	1.63
Extraordinary items	0.0	-0.4	-1.3	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	9.4	26.5	27.9	26.2	30.1	Revenue growth-%	11%	17%	14%	19%	20%
Equity capital	-0.6	18.3	15.4	16.1	18.2	EBITDA growth-%	-55%	136%	79%	-168%	132%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	-45%	42%	50%	-165%	184%
Net debt	-1.0	-18.3	-15.6	-15.5	-17.9	EPS (adj.) growth-%	-24%	-86%	-41%	-141%	205%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	-2.1 %	-4.3 %	-6.7 %	3.8 %	7.4 %
EBITDA	-0.4	-1.0	-1.7	1.2	2.7	EBIT (adj.)-%	-3.1 %	-3.8 %	-5.0 %	2.7 %	6.5 %
Change in working capital	1.6	-1.5	1.0	-0.9	0.2	EBIT-%	-3.1 %	-5.5 %	-10.2 %	2.7 %	6.5 %
Operating cash flow	1.2	-2.4	-0.7	0.3	2.6	ROE-%	454.8 %	-40.5 %	-17.8 %	4.4 %	12.2 %
CAPEX	-0.5	0.0	-1.7	-0.3	-0.3	ROI-%	-33.9 %	-11.5 %	-13.8 %	4.7 %	12.9 %
Free cash flow	1.1	-2.8	-2.4	0.1	2.4	Equity ratio	-6.5 %	69.0 %	55.4 %	61.6 %	4.0 %
						Gearing	156.2 %	-100.0 %	-101.2 %	-96.4 %	-98.2 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S		2.4	1.1	1.2	1.0						
EV/EBITDA (adj.)		neg.	neg.	32.5	13.1						
EV/EBIT (adj.)		neg.	neg.	45.4	15.0						
P/E (adj.)	0.0	neg.	neg.	77.2	25.3						
P/B	0.0	4.0	2.9	3.3	2.9						
Dividend-%		0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
5/14/2022	Accumulate	4.50 €	3.85 €
8/19/2022	Accumulate	4.50 €	4.03 €
11/4/2022	Buy	4.50 €	2.95 €
3/1/2023	Buy	5.50 €	4.26 €
8/18/2023	Accumulate	5.50 €	4.75 €



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