

Tietoevry

Company report

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This report is a summary translation of the report “Epävarmuus rajoittaa kovinta ostointoa” published on 7/24/2023 at 8:45 am

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Uncertainty limits enthusiasm about the share

We reiterate our Accumulate recommendation for Tietoevry and lower our target price to EUR 26.0 (was 31.0) reflecting estimate changes and increased uncertainty. Q2 figures remained below our estimates for several reasons, but H2 should be stronger supported by the order backlog and efficiency measures. The company repeated its guidance that indicates earnings growth, which, we believe will require good performance and no stronger headwinds on the market. The company's good track record maintain confidence in continued positive development in the coming years, although there is uncertainty in the short term. The valuation picture of the share is still attractive from several angles (2023e adj. P/E 10x, DCF € 33 and SOTP € 31) and the business areas to be separated provide drivers to dismantle the undervaluation.

Figures were below our and the market estimates

Tietoevry's revenue fell by 6% in Q2 to 695 MEUR and was below our and market expectations. Organic growth slowed to 3% (Q1: 8%). Exchange rates had a large negative impact of 60 MEUR. At business level, growth was slowed down more than expected by Tietoevry Tech Services (-5%). The order backlog increased by 6% and the amount of billable work in H2 by 8%, increasing confidence in a return to a slightly stronger growth path. In Q2, EBITA % was 10.5%, and below our and market estimates of 11.2-11.4%. Profitability was still limited by, e.g., high inflation.

Tietoevry announced it is acquiring an American consultancy firm but did not give the price

In our view MentorMate's data centricity is strategically interesting as it has been a hot area for years and will certainly continue to be so. In addition, US customers are interesting, but they pose a risk when the principal changes. In 2022, MentorMate's revenue amounted to USD 65 million and revenue growth was some 40%, which corresponds to approximately 2% of Tietoevry's revenue. Thus, the acquisition is relatively small, which reduces the risks associated with acquisitions. MentorMate's profitability strengthens Tietoevry Create's profitability, which we believe is around >15%. As the company already has cheap talent in Europe, Paraguay's market is a more attractive opening and its located in the same time zones as US customers.

Tietoevry repeated its guidance that indicates earnings growth, and requires a turn in H2

Tietoevry still expects its organic growth to be 5-7% (2022: 6%) and adjusted EBITA % to be 13.0-13.5% (2022: 13.0%). We lowered estimates by 5-10% with the Q2 report and market uncertainty. The company said that H2 is seasonally strong, supported by the order backlog and efficiency measures. We expect revenue to decrease by 2% (organically +5.4%) and EBITA % to be 13.2% in 2023. In 2024-25, we expect growth to be 5% and profitability to rise to 13.6%, below our targets (growth of 8-10% and EBITA-% of 15-16% by 2025). The risk profile of the business continues to be lower than for many Nordic peers especially in the prevailing uncertainty, due to a higher share of recurring business.

Valuation picture is actually very attractive, but uncertainty slows down eagerness to buy shares

The demand fundamentals for Tietoevry and the sector are strong, the company's outlook is good in the medium term, but there is uncertainty in the short term. With our estimates, Tietoevry's P/E and EV/EBIT ratios for 2023 are 10x and 9x or almost 40% below peers. In our view, the share's absolute and relative valuation is very attractive, but uncertainty in the short-term results in caution. The expected return on the share also rises to an attractive level of nearly 15% on the back of 7% earnings growth and a 7% dividend yield alone. In addition, the sum-of-the-parts calculation (EUR 31) clearly indicates a higher than current value and is a relevant way to look at valuation when the company is to be split into three parts. The DCF calculation (EUR 33) also indicates a clear upside.

Recommendation

Accumulate

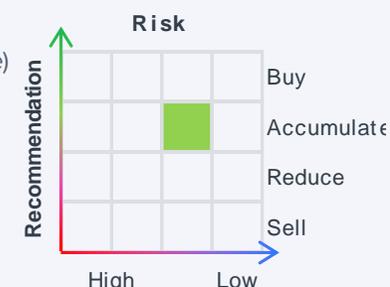
(previous Accumulate)

EUR 26.00

(previous EUR 31.00)

Share price:

22.34



Key figures

	2022	2023e	2024e	2025e
Revenue	2928	2862	3008	3165
growth-%	4%	-2%	5%	5%
EBIT adj.	379	379	402	431
EBIT-% adj.	12.9 %	13.2 %	13.4 %	13.6 %
Net Income	188	199	225	250
EPS (adj.)	2.35	2.35	2.51	2.74

P/E (adj.)	11.3	9.5	8.9	8.2
P/B	1.8	1.6	1.5	1.5
Dividend yield-%	5.5 %	6.7 %	6.9 %	7.2 %
EV/EBIT (adj.)	10.2	8.6	7.9	7.1
EV/EBITDA	9.0	7.5	6.8	6.2
EV/S	1.3	1.1	1.1	1.0

Source: Inderes

Guidance

(Unchanged)

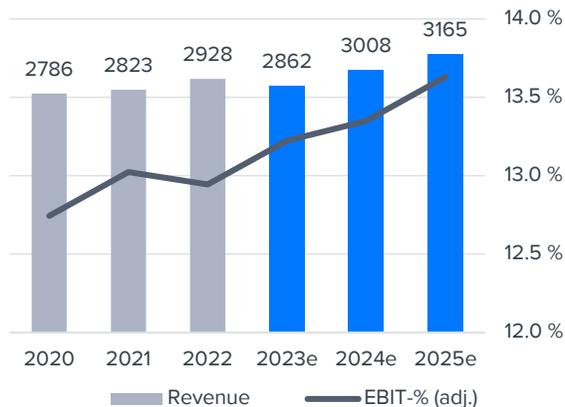
Tietoevry expects organic growth of 5-7% and an adjusted EBITA margin of 13.0-13.5% in 2023.

Share price



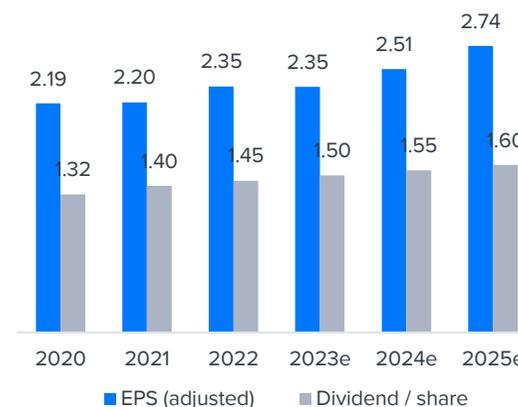
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strengthened growth outlook
- Increase in the share of highly profitable software product business
- Growing share of new modern IT services
- New synergies from the Tietoevry integration
- Acquisitions and divestments of non-strategic businesses
- Business separation



Risk factors

- Decline in competitive position among large customers
- Continuous transformation creates a constant need for restructuring
- Accelerating wage inflation, high employee turnover and a failure in talent competition

Valuation	2023e	2024e	2025e
Share price	22.3	22.3	22.3
Number of shares, million:	118.4	118.4	118.4
Market cap	2645	2645	2645
EV	3273	3179	3068
P/E (adj.)	9.5	8.9	8.2
P/E	13.3	11.8	10.6
P/FCF	8.4	9.1	8.5
P/B	1.6	1.5	1.5
P/S	0.9	0.9	0.8
EV/Sales	1.1	1.1	1.0
EV/EBITDA	7.5	6.8	6.2
EV/EBIT (adj.)	8.6	7.9	7.1
Payout ratio (%)	89.5 %	81.6 %	75.9 %
Dividend yield-%	6.7 %	6.9 %	7.2 %

Source: Inderes

Figures were below our and market estimates

Revenue growth slowed down clearly and was below market expectations

Tietoevry's revenue fell by 6% in Q2 to EUR 695 million and was below our and market expectations. Organically, revenue grew by 3% (Q1: 8%). Exchange rates had a sizable EUR 60 million, working days (1.4% impact) and business divestments EUR 1 million negative impact. Organically growth was driven by Tietoevry Create (5%), Tietoevry Care (7%) and Tietoevry Banking (11%). Growth was slowed down more than expected by Tietoevry Tech Services (-5%). Overall, organic growth was still positive, although it slowed down clearly from the levels of the previous six months (8-9%). The order backlog increased by 6% and the amount of billable work in H2 by 8%, increasing confidence in a return to a slightly stronger growth path. The company commented that the market uncertainty affected

demand more at the beginning of the quarter and that it had improved toward the end of the quarter.

Result below expectations

In Q2, Tietoevry's EBITA margin was 10.5%, and below our and market estimates of 11.2-11.4%. EBITA adjusted for one-off items amounted to EUR 73 million in Q2 (Q2'22: 79 MEUR) and was below both our and market estimates (82-83 MEUR) due to growth and profitability. The result was still limited by high inflation (not only wage inflation), higher technology costs and a lower number of working days. The company increased its wage inflation expectation for 2023 to 5% (previously 4-5%). We believe that the efficiency measures generated some benefits in Q2. Profitability is also supported by reduced expert attrition, which affects billing rates and recruitment costs. Depreciation and one-off

items were slightly above our estimates. Thus, adjusted EPS was EUR 0.43 in Q2 and below both our and market expectations (0.50- 0.45). The company commented that H2 is seasonally strong, supported by the order backlog and efficiency measures.

Estimates MEUR / EUR	Q2'22	Q2'23	Q2'23e	Q2'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	739	695	695	726	702	- 762	0%	2862
EBIT (adj.)	79	73	73	83	73	- 87	0%	379
EBIT	40	41	41	56	50	- 63	0%	278
PTP	30	25	35	48	44	- 57	-27%	252
EPS (adj.)	0.45	0.43	0.44	0.45	0.38	- 0.53	-3%	2.35
EPS (reported)	0.18	0.21	0.23	0.33	0.28	- 0.35	-9%	1.68
Revenue growth-%	2.4 %	-5.9 %	-6.0 %	-1.8 %	-5.0 %	- 3.1 %	0 pp	-2.2 %
EBIT-% (adj.)	10.7 %	10.5 %	10.5 %	11.4 %	10.4 %	- 11.4 %	0 pp	13.2 %

Source: Inderes & Vara Research, 8-10 estimates (consensus)



Watch the video of the Q2 earnings webcast here:



Financial targets and business spin-offs

Tietoevry's targets are ambitious and higher than the current level

Tietoevry is targeting a growth rate of 8-10% and an adjusted EBITA of 15-16% by 2025. The targets are clearly higher than the current performance level, as for 2022 the company estimates organic growth to be 5-7% and adjusted EBITA to be 13.0-13.5%. In addition, the company aims to maintain the net debt/EBITDA ratio at 1-2x and continue increasing dividends annually.

Tietoevry's growth and profitability targets are based on consolidated business objectives. The company has set long-term financial targets for each area. True to its tradition, the company explains well and in detail the objectives of its different businesses and sets out the 2025 targets for each of them.

Industry-specific software solutions and global data-driven development and consulting services (combined): 12-14% annual growth rate and annual adjusted EBITA of 17-19% by 2025. By business, the targets are:

- Tietoevry Create growth 14-16% and EBITA-% 14-16%
- Tietoevry Banking growth 10-12% and EBITA-% 16-18%
- Tietoevry Care growth 12-14% and EBITA-% 28-30%
- Tietoevry Industry growth 8-10% and EBITA-% 20-22%

Tietoevry Tech Services, i.e. recurring services and transformation: 1-3% annual growth rate and annual adjusted EBITA of 9-11% by 2025.

In our view the objectives are ambitious and well above our and market expectations.

Separation of the banking business

In connection with its Q2'22 report, Tietoevry also announced that it has decided to initiate a strategic review of Tietoevry Banking, including a process to study the potential separation into an independent company that would be listed on a stock exchange. The aim is to accelerate the growth and profitability of Tietoevry Banking and enhance its strategic and financial flexibility.

We already considered separation as one driver for dissolving the undervaluation. Thus the news was very welcome. If the listing review proceeds favorably, Tietoevry will seek to list the Banking business on a stock exchange in the first half of 2024 (previously in H2'23). The company feels that as an independent company the business has greater opportunities to grow and improve profitability. The business has developed well over the past year, which supports a good price when separated.

Separation of Tietoevry Tech Services business

Tietoevry announced in November that it will also separate its business areas that focus on continuous services and transformation (previously Tietoevry Transform and Tietoevry Connect) Tietoevry Tech Services. These activities are concentrated in slower growing or declining areas of the IT services market. We believe that with the separation the company wants to showcase its other more quickly growing businesses that focus on software solutions with better profitability and data-driven development and consulting services (Tietoevry Create, Tietoevry

Banking, Tietoevry Care and Tietoevry Industry). We feel the separation is in line with the company's strategy and a "new" driver to dissolve the undervaluation of the share.

Combined Tietoevry Transform and Tietoevry Connect is a competitive player focusing on Nordic managed services and customer transformation, serving over 1,000 Nordic companies and public sector customers. The combined annual revenue of the businesses is around EUR 1.2 billion and they employ some 8,000 professionals worldwide. In Q1'23, Tietoevry merged the businesses into Tech Services, which will focus on executing the joint strategy by leveraging the best expertise from both businesses.

Earlier this year, the company appointed new leaders for the two entities to be separated (Banking and Tech Services). In connection with the Q2'23 report, the company reported that strategic assessments are progressing. The strategic assessment of the Banking business is expected to end in Q1'24 (previously H2'23) and Tech Services probably in H1'24.

The planned measures accelerate the strategy execution of the remaining Tietoevry and positions the company as a player focusing on industry-specific software solutions and global data-driven development and consulting services. The combined annual revenue of these Tietoevry businesses is currently around EUR 1.7 billion and they have some 16,000 employees worldwide. The separation allows the businesses to become more competitive in the market and to accelerate value creation.

We lowered estimates by 5-10%

Estimate revisions 2023e-2024e

- Driven by the weaker market we lowered our operational estimates and our Q3 and Q4 estimates slightly based on exchange rates.
- We added the MentorMate acquisition that will have an annual effect of some 2% on Tietoevry's revenue and result.

Estimates

- We expect Tietoevry to grow annually by around 5% organically in the coming years, which is below the company's financial targets of 8-10%.
- We expect the EBITA margin to rise gradually and be 13.6%, which is below the company's 15-16% target.

Operational result drivers 2023e:

- Price increases support development
- Efficiency programs started in 2022 and Q1-Q2'2023 continue to support development
- Tietoevry estimates wage inflation to average 5% in 2023 (2022: 4%), while in Q1 the company estimate was 4-5%
- The company expects non-recurring costs to be around 1.5% of revenue in 2023, including costs related to strategic assessments.

Financial targets

- Tietoevry is targeting a growth rate of 8-10%
- In terms of profitability, the company is targeting an adjusted EBITA margin of 15-16% by 2025
- In terms of solvency, the company aims to maintain a net debt/EBITDA ratio between 1-2x
- For the dividend, the objective is to continue to increase each year

Estimate revisions MEUR / EUR	2023e			2024e			2025e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	3018	2862	-5%	3161	3008	-5%	3312	3165	-4%
EBITDA	470	434	-8%	493	469	-5%	524	496	-5%
EBIT (exc. NRIs)	402	379	-6%	426	402	-6%	459	431	-6%
EBIT	314	278	-11%	334	310	-7%	365	337	-8%
PTP	288	252	-12%	310	285	-8%	346	316	-9%
EPS (excl. NRIs)	2.50	2.35	-6%	2.68	2.51	-6%	2.94	2.74	-7%
DPS	1.50	1.50	0%	1.55	1.55	0%	1.60	1.60	0%

Source: Inderes

Valuation 1/2

Peer group

The demand fundamentals for Tietoevry and the sector are good in the medium and long term but there is uncertainty in the short term. We have used Finnish, Nordic and global peers in Tietoevry's peer group. We consider the median of this peer group to be a good yardstick for Tietoevry's valuation level. We base the relative valuation on the company's size, competitive position, and scalability, continuity and know-how of the expert portfolio, as well as geographical diversification and predictable business. We have also considered the 'constant' restructuring costs, which are higher for Tietoevry than its peers. Tietoevry expects restructuring costs to be 1.5% of revenue in 2023 (2022: ~ 2.0%), representing a good 10% of the operating result. As the company shows strengthening economies of scale and competitive advantages, a slight premium can be accepted for the share compared to the sector valuation.

Valuation multiples

With our estimates, Tietoevry's P/E and EV/EBIT ratios for 2023 are 10x and 9x or almost 40% below peers. In our view the share's valuation in both absolute and relative terms is actually very attractive but the prevailing uncertainty curbs our enthusiasm a bit. The company adjusts good 10% more costs from its result than its Finnish peers and considering this the share is still attractively priced. In addition, dividend yield (7%) provides a good baseline return.

According to our view, dismantling the long-standing undervaluation can be triggered by the continuation of organic growth at the level of over 5% seen in previous quarters. Historically, growth has been challenging and the current level of 4-9% seen in the past year can be considered good for Tietoevry which

also depicts the healthy business. In addition, the new strategy and segment structure allow new and higher efficiency as the segments have their own stronger focus. Thirdly, there's the planned separation of the business, which would clarify the structure and give new business units better conditions for growth and profitability. The company has been communicating for some time that it is active on the M&A front, which may involve acquisitions (like now) and smaller divestments in addition to the current spin-offs. This could further strengthen (acquisitions) or clarify the structure (divestments) and reduce the undervaluation. In our view, the drivers to unwind the undervaluation have only strengthened and separation of the units already seems relatively certain.

Components of the expected return for the share

We examine the expected return for Tietoevry's share based on earnings growth, dividend yield and the accepted valuation level. We estimate that the company has the potential for ~7% annual earnings growth in 2024-2025 (compared to 2023 level), driven by growth and profitability. With our growing dividend estimates and average 80% payout ratio the dividend yield is around ~7%. A strong cash flow continuously strengthens the balance sheet and provides a good basis for even higher profit distribution and/or inorganic growth.

In our view, there is also room for upside in the valuation multiples of the stock at the moment. Thus, the expected return on the stock, consisting solely of dividend yield and earnings growth, is >10%. This is an attractive level, especially given the relatively low risk profile of the company's business.

Valuation	2023e	2024e	2025e
Share price	22.3	22.3	22.3
Number of shares, million:	118.4	118.4	118.4
Market cap	2645	2645	2645
EV	3273	3179	3068
P/E (adj.)	9.5	8.9	8.2
P/E	13.3	11.8	10.6
P/FCF	8.4	9.1	8.5
P/B	1.6	1.5	1.5
P/S	0.9	0.9	0.8
EV/Sales	1.1	1.1	1.0
EV/EBITDA	7.5	6.8	6.2
EV/EBIT (adj.)	8.6	7.9	7.1
Payout ratio (%)	89.5 %	81.6 %	75.9 %
Dividend yield-%	6.7 %	6.9 %	7.2 %

Source: Inderes

Valuation 2/2

Sum of the parts

With Tietoevry's strategy and especially the business separations, it's very natural to look at the valuation of the share also from the perspective of the sum of the parts. Tietoevry has announced that it will spin off its Banking business and its Tech Services businesses separately. Thus, three new entities would be created in total. The separation of the Banking business will probably happen first (in Q1'24) and Tech Services in H1'24.

The Banking business is currently growing well and profitability is at a good level. The business has good international growth potential. In particular, the business has the potential to further improve profitability through the share of software and ongoing business and scalable growth.

The very mature phase of the Tech Services

businesses has depressed Tietoevry's development. Businesses have developed very moderately in terms of revenue and profitability is under constant pressure from fierce price competition.

In our view, the EV/EBITA multiples we use reflect growth and profitability profiles, peers and business continuity. We have used our 2023 projections for the businesses.

If the businesses reach their targets in 2025, there is still considerable upside potential in the sum of the parts.

However, the valuation at the time of separation depends to a large extent on the current development of the business (growth and profitability), the market situation, the potential, the share of software and the share of recurring revenue. We lowered the EV/EBITA ratio of Tietoevry Create

to 1x due to market uncertainty. Otherwise the sum of the parts decreased due to lower estimates for the businesses.

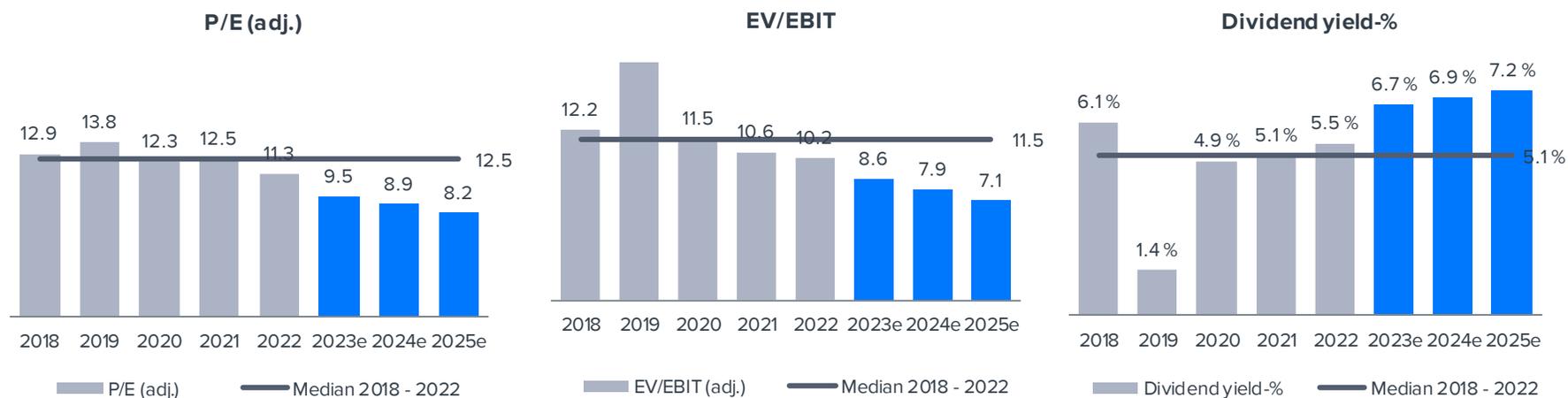
With the multiples we applied, we arrive at an unleveraged value of EUR 4.3 billion for Tietoevry, which corresponds to a year-end net debt value of EUR 31.4 per share (previously EUR 35.2). Thus, there is a clear upside in the stock through the sum of the parts.

Segments	Revenue growth 2023	EBITA-% 2023	EBITA	EV/EBITA ratio	EV
Tietoevry Create	0 %	14 %	119	13x	1546
Tietoevry Banking	1 %	14 %	78	13x	1010
Tietoevry Care	5 %	31 %	75	13x	975
Tietoevry Industry	-2 %	17 %	46	11x	505
Tietoevry Tech Services	0 %	8 %	88	7x	613
Others			-27	11.4x	-304
Group total	-2.2 %	13.2 %	379	11.5x	4346
Net debt					628
Market cap					3719
Share price					31.4

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	23.6	27.7	26.9	27.5	26.5	22.3	22.3	22.3	22.3
Number of shares, millions	73.8	67.9	118.4	118.4	118.4	118.4	118.4	118.4	118.4
Market cap	1741	3283	3181	3254	3140	2645	2645	2645	2645
EV	2045	4067	4097	3900	3851	3273	3179	3068	2936
P/E (adj.)	12.9	13.8	12.3	12.5	11.3	9.5	8.9	8.2	7.6
P/E	14.1	23.8	33.7	11.2	16.7	13.3	11.8	10.6	9.6
P/FCF	neg.	neg.	82.9	8.4	13.0	8.4	9.1	8.5	7.9
P/B	3.6	1.9	2.0	1.8	1.8	1.6	1.5	1.5	1.4
P/S	1.1	1.9	1.1	1.2	1.1	0.9	0.9	0.8	0.8
EV/Sales	1.3	2.3	1.5	1.4	1.3	1.1	1.1	1.0	0.9
EV/EBITDA	9.8	17.7	12.7	7.1	9.0	7.5	6.8	6.2	5.6
EV/EBIT (adj.)	12.2	20.7	11.5	10.6	10.2	8.6	7.9	7.1	6.4
Payout ratio (%)	86.9 %	59.5 %	165.4 %	56.9 %	91.1 %	89.5 %	81.6 %	75.9 %	70.9 %
Dividend yield-%	6.1 %	1.4 %	4.9 %	5.1 %	5.5 %	6.7 %	6.9 %	7.2 %	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-%	
			2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e
Digia*	159	171	8.8	7.4	7.2	6.2	0.9	0.8	10.9	9.4	3.2	3.4
Digital Workforce*	49	33	39.9	13.0	28.5	11.4	1.1	0.9	70.5	23.1		
Gofore*	325	300	11.1	8.9	10.2	8.2	1.6	1.3	15.0	13.2	2.4	2.8
Loihde*	72	52	17.1	7.9	5.7	3.7	0.4	0.3	29.6	14.0	2.4	2.5
Innofactor*	41	51	9.3	7.2	6.1	5.0	0.6	0.6	11.2	8.5	6.2	7.1
Netum Group*	43	44	11.9	10.2	11.1	9.5	1.2	1.1	14.6	12.9	3.9	4.2
Silli Solutions*	104	96	10.0	7.8	7.4	6.0	0.8	0.7	15.5	12.1	2.4	2.9
Solteq*	22	41		16.9	3.1	4.0	0.7	0.7		36.1		2.7
Vincit*	59	50	11.6	7.0	10.2	6.4	0.5	0.5	19.1	11.1	4.7	5.5
Witted Megacorp*	44	34	48.0	7.2	44.8	7.2	0.5	0.4	59.6	12.3		
Bouvet	556	574	14.9	13.8	12.5	11.7	1.9	1.7	19.0	17.5	4.6	5.0
CombinedX	44	41	6.2	5.6	4.3	4.0	0.6	0.6	8.9	7.7		
Knowit	341	433	15.1	11.7	7.6	6.7	0.7	0.7	13.6	13.0	4.0	4.6
Avensia AB	31	33			15.0	11.1	0.9	0.8	1936.0	21.0	1.6	3.1
Netcompany Group	2090	2333	21.0	17.5	16.2	14.2	2.9	2.6	25.5	20.7	0.5	1.0
Wipro	23153	20236	13.4	12.6	10.9	10.4	2.0	2.0	19.4	18.1	2.0	2.0
Tata Consultancy	135306	129827	21.4	19.8	19.6	18.1	5.3	4.8	29.1	26.3	2.7	2.7
Atos SE	1594	4127	8.6	7.4	4.0	3.9	0.4	0.4	5.5	4.6		1.0
Capgemini SE	30238	33515	12.0	11.0	9.5	8.8	1.5	1.4	15.1	13.7	2.0	2.1
IBM	113519	150614	15.4	14.5	11.0	10.4	2.7	2.6	14.6	13.8	4.7	4.8
Accenture	188260	181262	20.8	19.5	17.1	15.9	3.1	3.0	27.1	25.3	1.4	1.5
Tietoevry (Inderes)	2645	3273	8.6	7.9	7.5	6.8	1.1	1.1	9.5	8.9	6.7	6.9
Average			16.7	11.3	12.5	8.7	1.4	1.3	118.0	15.9	3.0	3.3
Median (all)			13.4	10.6	10.2	8.2	0.9	0.8	17.2	13.7	2.6	2.9
<i>Diff-% to median</i>			-35%	-25%	-26%	-18%	27%	30%	-45%	-35%	161%	143%
Median Finnish companies			11.6	7.8	8.8	6.3	0.7	0.7	15.5	12.6	3.2	3.1
<i>Diff-% to median</i>			-25%	1%	-14%	7%	58%	59%	-38%	-29%	110%	121%
Median international companies			15.0	13.2	11.0	10.4	1.9	1.7	19.0	17.5	2.0	2.4
<i>Diff-% to median</i>			-42%	-40%	-31%	-35%	-39%	-39%	-50%	-49%	229%	190%

Source: Refinitiv / *Inderes adjusted estimate. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	2823	731	739	690	768	2928	744	695	655	767	2862	3008	3165	3318
Tietoevry Create		188	188	172	207	849	223	205	198	224	849	917	981	1040
Tietoevry Banking		114	120	112	130	571	142	140	133	160	575	618	661	707
Tietoevry Care		54.4	61.5	48.9	57.1	231	62.8	59.1	55.2	66.1	243	262	283	303
Tietoevry Industry		82.9	78.5	67.4	74.6	273	68.7	63.8	61.6	71.8	266	279	293	308
Tietoevry Tech Services		121	119	105	122	1171	289	266	245	283	1083	1083	1094	1105
Eliminations		-76	-77	-73	-83	-167	-41	-38	-37	-37	-154	-151	-148	-145
EBITDA	552	88.3	81.3	117	142	429	107	80	107	139	434	469	496	527
Depreciation	-170.0	-42	-42	-40	-39	-162	-39	-39	-39	-39	-156	-159	-159	-161
EBIT (excl. NRI)	368	85	79	98	118	379	92	73	91	123	379	402	431	460
EBIT	382	46	40	78	103	266	69	41	68	100	278	310	337	366
Net financial items	-28.2	-4	-9	-2	-8	-24	-6	-7	-7	-7	-26	-25	-21	-17
PTP	354	42	30	75	95	243	62	35	62	94	252	285	316	349
Taxes	-62.2	-9	-9	-16	-21	-54	-14	-7	-13	-20	-54	-60	-66	-73
Net earnings	292	33	22	59	75	188	48	27	49	74	199	225	250	276
EPS (adj.)	2.20	0.54	0.45	0.63	0.73	2.35	0.56	0.44	0.56	0.78	2.35	2.51	2.74	2.95
EPS (rep.)	2.46	0.28	0.18	0.50	0.63	1.59	0.41	0.23	0.41	0.62	1.68	1.90	2.11	2.33
Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	1.3 %	2.7 %	2.4 %	6.5 %	3.5 %	3.7 %	1.8 %	-6.0 %	-5.1 %	0.0 %	-2.2 %	5.1 %	5.2 %	4.9 %
Adjusted EBIT growth-%	3.6 %	3.0 %	-10.6 %	3.9 %	14.0 %	3.1 %	8.5 %	-7.6 %	-6.9 %	4.3 %	-0.1 %	6.1 %	7.4 %	6.7 %
EBITDA-%	19.6 %	12.1 %	11.0 %	17.0 %	18.4 %	14.6 %	14.4 %	11.5 %	16.4 %	18.1 %	15.2 %	15.6 %	15.7 %	15.9 %
Adjusted EBIT-%	13.0 %	11.6 %	10.7 %	14.2 %	15.3 %	12.9 %	12.3 %	10.5 %	13.9 %	16.0 %	13.2 %	13.4 %	13.6 %	13.9 %
Net earnings-%	10.3 %	4.5 %	3.0 %	8.6 %	9.7 %	6.4 %	6.5 %	3.9 %	7.4 %	9.6 %	6.9 %	7.5 %	7.9 %	8.3 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	2713	2565	2520	2480	2441
Goodwill	1944	1847	1847	1847	1847
Intangible assets	388	337	289	240	192
Tangible assets	280	299	309	317	326
Associated companies	16.7	14.2	14.2	14.2	14.2
Other investments	17.0	16.2	10.0	10.0	10.0
Other non-current assets	38.1	20.6	20.6	20.6	20.6
Deferred tax assets	29.9	31.4	31.4	31.4	31.4
Current assets	874	829	711	746	783
Inventories	7.2	5.6	0.0	0.0	0.0
Other current assets	23.3	23.6	23.6	23.6	23.6
Receivables	520	550	544	572	601
Cash and equivalents	324	250	143	150	158
Balance sheet total	3587	3394	3231	3225	3224

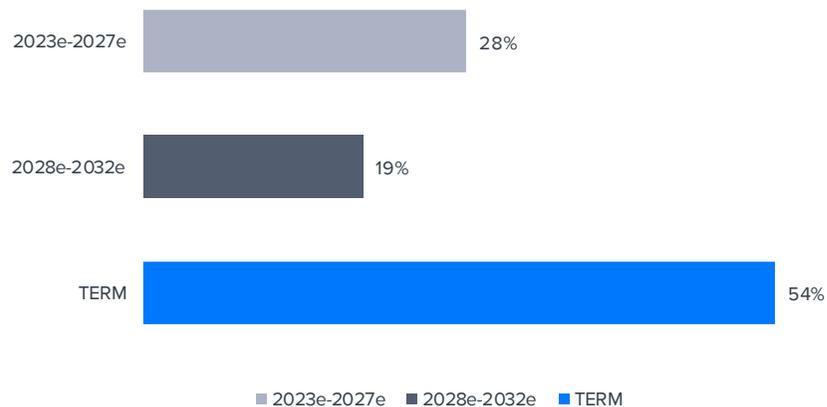
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	1821	1719	1706	1753	1820
Share capital	118	116	75.8	75.8	75.8
Retained earnings	500	400	427	474	540
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	1204	1204	1204	1204	1204
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	999	891	806	595	512
Deferred tax liabilities	27.6	24.6	24.6	24.6	24.6
Provisions	22.4	21.7	21.7	21.7	21.7
Long term debt	876	795	710	499	416
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	73.4	49.4	49.4	49.4	49.4
Current liabilities	767	783	718	877	892
Short term debt	94.0	165	60.1	185	164
Payables	673	619	658	692	728
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	3587	3394	3231	3225	3224

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	3.7 %	-2.2 %	5.1 %	5.2 %	4.9 %	4.0 %	3.0 %	3.0 %	2.5 %	2.5 %	1.5 %	1.5 %
EBIT-%	9.1 %	9.7 %	10.3 %	10.7 %	11.0 %	11.0 %	11.0 %	11.0 %	10.0 %	10.0 %	10.0 %	10.0 %
EBIT (operating profit)	266	278	310	337	366	380	391	403	375	385	390	
+ Depreciation	162	156	159	159	161	161	134	125	125	125	126	
- Paid taxes	-58.7	-53.7	-59.8	-66.4	-73.2	-77.0	-80.2	-83.4	-78.1	-80.6	-82.2	
- Tax, financial expenses	-5.6	-5.7	-5.3	-4.6	-3.8	-2.9	-2.0	-1.4	-0.9	-0.4	0.0	
+ Tax, financial income	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
- Change in working capital	-83.4	51.6	5.8	6.2	6.1	5.3	4.1	4.3	3.7	3.8	2.3	
Operating cash flow	281	426	409	432	456	466	447	448	425	433	437	
+ Change in other long-term liabilities	-24.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-14.8	-111.1	-118.6	-119.9	-121.1	-122.4	-123.7	-125.0	-126.4	-127.7	-110.8	
Free operating cash flow	242	315	291	312	335	344	323	323	299	305	326	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	242	315	291	312	335	344	323	323	299	305	326	5274
Discounted FCFF		305	261	260	259	246	215	199	171	162	161	2601
Sum of FCFF present value		4840	4535	4274	4014	2755	3509	3294	3095	2923	2761	2601
Enterprise value DCF		4840										
- Interest bearing debt		-960.0										
+ Cash and cash equivalents		250										
- Minorities		0.0										
- Dividend/capital return		-171.7										
Equity value DCF		4177										
Equity value DCF per share		35.3										

Cash flow distribution



WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	6.0 %
Equity Beta	1.15
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.0 %
Weighted average cost of capital (WACC)	7.5 %

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	2786.4	2823.3	2928.1	2862.2	3008.3	EPS (reported)	0.80	2.46	1.59	1.68	1.90
EBITDA	322.5	552.0	428.5	433.8	468.6	EPS (adj.)	2.19	2.20	2.35	2.35	2.51
EBIT	146.7	382.0	266.3	278.1	309.6	OCF / share	1.93	4.42	2.37	3.60	3.46
PTP	122.4	353.8	242.6	252.2	284.9	FCF / share	0.32	3.27	2.04	2.66	2.46
Net Income	94.5	291.6	188.4	198.5	225.1	Book value / share	13.73	15.38	14.52	14.41	14.81
Extraordinary items	-208.4	14.3	-112.7	-100.4	-92.0	Dividend / share	1.32	1.40	1.45	1.50	1.55
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	3604.8	3587.3	3393.8	3230.7	3225.3	Revenue growth-%	61%	1%	4%	-2%	5%
Equity capital	1626.2	1821.1	1719.3	1706.0	1753.5	EBITDA growth-%	40%	71%	-22%	1%	8%
Goodwill	1974.4	1943.7	1846.5	1846.5	1846.5	EBIT (adj.) growth-%	81%	4%	3%	0%	6%
Net debt	916.3	645.8	710.3	627.5	533.8	EPS (adj.) growth-%	9%	1%	7%	0%	7%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	11.6 %	19.6 %	14.6 %	15.2 %	15.6 %
EBITDA	322.5	552.0	428.5	433.8	468.6	EBIT (adj.)-%	12.7 %	13.0 %	12.9 %	13.2 %	13.4 %
Change in working capital	-67.0	19.2	-83.4	51.6	5.8	EBIT-%	5.3 %	13.5 %	9.1 %	9.7 %	10.3 %
Operating cash flow	228.7	523.4	281.2	426.2	409.4	ROE-%	5.7 %	16.9 %	10.6 %	11.6 %	13.0 %
CAPEX	14.0	-110.5	-14.8	-111.1	-118.6	ROI-%	5.4 %	13.7 %	9.8 %	10.8 %	12.6 %
Free cash flow	38.4	387.4	241.7	315.1	290.8	Equity ratio	45.1 %	50.8 %	50.7 %	52.8 %	54.4 %
Valuation multiples	2020	2021	2022	2023e	2024e	Gearing	56.3 %	35.5 %	41.3 %	36.8 %	30.4 %
EV/S	1.5	1.4	1.3	1.1	1.1						
EV/EBITDA (adj.)	12.7	7.1	9.0	7.5	6.8						
EV/EBIT (adj.)	11.5	10.6	10.2	8.6	7.9						
P/E (adj.)	12.3	12.5	11.3	9.5	8.9						
P/B	2.0	1.8	1.8	1.6	1.5						
Dividend-%	4.9 %	5.1 %	5.5 %	6.7 %	6.9 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
4/26/2018	Reduce	29.00 €	29.86 €
7/23/2018	Accumulate	28.00 €	25.96 €
10/25/2018	Reduce	27.00 €	26.30 €
11/29/2018	Reduce	27.00 €	25.70 €
2/7/2019	Reduce	27.00 €	26.70 €
4/26/2019	Reduce	27.00 €	27.50 €
7/22/2019	Accumulate	26.00 €	23.10 €
10/25/2019	Reduce	26.00 €	25.92 €
12/11/2019	Reduce	27.00 €	26.86 €
2/17/2020	Reduce	29.00 €	30.30 €
3/30/2020	Accumulate	21.00 €	18.69 €
4/29/2020	Accumulate	25.00 €	21.94 €
7/27/2020	Accumulate	28.00 €	26.24 €
10/21/2020	Buy	30.00 €	25.90 €
10/28/2020	Buy	30.00 €	22.66 €
2/18/2021	Buy	30.00 €	26.34 €
4/30/2021	Buy	34.00 €	28.98 €
7/21/2021	Buy	34.00 €	28.36 €
10/27/2021	Buy	34.00 €	26.94 €
2/18/2022	Buy	32.00 €	25.70 €
5/6/2022	Buy	31.00 €	22.72 €
7/25/2022	Buy	31.00 €	26.14 €
10/28/2022	Accumulate	28.00 €	24.34 €
12/1/2022	Accumulate	29.00 €	25.92 €
2/16/2023	Accumulate	33.00 €	29.58 €
5/5/2023	Accumulate	31.00 €	26.56 €
7/24/2023	Accumulate	26.00 €	22.34 €



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