

Tietoevry

Company report

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This report is a summary translation of the report “Liiketoimintojen irrottamiset keskiössä” published on 2/16/2024 at 9:02 am EET

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Business demergers in focus

We reiterate our Accumulate recommendation and EUR 25.0 target price for Tietoevry. Q4 was operationally in line with expectations, guidance was slightly soft and dividend a bit below expectations. Driven by a challenging market, we cut our forecasts a tad. We expect the earnings to be at the level of the comparison period, due to a challenging market, but to grow moderately in the coming years. Our forecasts are clearly below the company's target levels. The share's valuation picture is still moderate from several angles (2024e P/E 14x, adj. P/E 10x, DCF EUR 29, SOTP EUR 28 and expected return ~15%) and business areas to be demerged provide drivers to dissolve the undervaluation.

Revenue continued to grow organically and earnings fell as expected

Tietoevry's Q4 revenue decreased by 2% to 752 MEUR, which was in line with our and consensus expectations. Organically, revenue increased by 1% (Q1: 8%, Q2: 3% and Q3: 2%). The adjusted EBITA was 108 MEUR in Q4 or 14.4% of Q4 revenue, which was in line with our and market forecasts. The result was still constrained by inflation) and supported by efficiency measures as staff numbers adapted to lower demand. The adjusted EPS decreased by EUR 0.10 to EUR 0.63 in Q4 and was EUR 2.14 (reported EUR 1.45) in 2023. The Board of Directors proposed a dividend of EUR 1.47 per share for 2023, which was slightly below our and market expectations of EUR 1.50.

Banking will probably be listed at the end of Q2

Tietoevry's Board of Directors announced that the Banking business will be listed on Nasdaq Helsinki and that trading is expected to start at the beginning of July. This was, in our view, the better option, as the potential of the Banking business has not been seized in the current market environment and valuation levels for selling are under pressure. At the same time, however, the company still holds the option to sell the Banking business. Regarding Tech Service, the company is in discussions with potential buyers and expects to complete the assessment by the end of Q2.

Tietoevry's guidance was slightly softer than expected

Tietoevry expects the company's target markets to grow by 0-2% in 2024. The guidance is own organic growth of 0-3% in 2024 being weakest in Q1. The company expects EBITA to be 12-13% in 2024 (2023: 12.6%). The expectations and market comments were slightly more cautious than expected and we cut our forecasts by some 5%. We expect the company's organic revenue growth to slow down to 1% driven by a challenging market, which is below the 2022-23 levels of 4-6%. We expect EBITA to be 12.5% in 2024 (2023: 12.6%). Profitability is supported by better revenue distribution and lower expert turnover. Profitability is limited by wage inflation (4-5%), which is challenging to include in customer prices. In 2025-2026, we expect revenue growth of some 3% and EBITA to gradually rise to good 13%.

The valuation picture remains attractive and demergers acts as a driver to dissolve the undervaluation

With our forecasts, Tietoevry's adjusted P/E and EV/EBIT ratios for 2024 are 10x and good 40% below peers. The corresponding reported ratios are 13-14x, but almost half of the adjustments are PPA depreciation, which do not affect cash flow and we also adjust these for peers. We find the absolute valuation of the share attractive and the relative valuation highly attractive. The expected return also rises to an attractive level of nearly 15% on the back of 6% earnings growth and a 7% dividend yield alone. In addition, the sum-of-the-parts calculation (EUR 28) 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 29) also indicates a clear upside. Strategic assessment of operations is progressing and demergers will take place in the summer and/or later, which are clear drivers for dissolving the undervaluation.

Recommendation

Accumulate

(previous Accumulate)

EUR 25.00

(previous EUR 25.00)

Share price:

22.10



Key figures

	2023	2024e	2025e	2026e
Revenue	2851	2888	2956	3045
growth-%	-2.6 %	1.3 %	2.4 %	3.0 %
EBIT adj.	359	360	383	408
EBIT-% adj.	12.6 %	12.5 %	13.0 %	13.4 %
Net Income	172	189	206	226
EPS (adj.)	2.14	2.16	2.34	2.52

P/E (adj.)	10.1	10.2	9.5	8.8
P/B	1.6	1.6	1.6	1.6
Dividend yield-%	6.8 %	6.8 %	7.0 %	7.2 %
EV/EBIT (adj.)	9.7	9.7	8.9	8.1
EV/EBITDA	8.6	8.2	7.6	7.0
EV/S	1.2	1.2	1.2	1.1

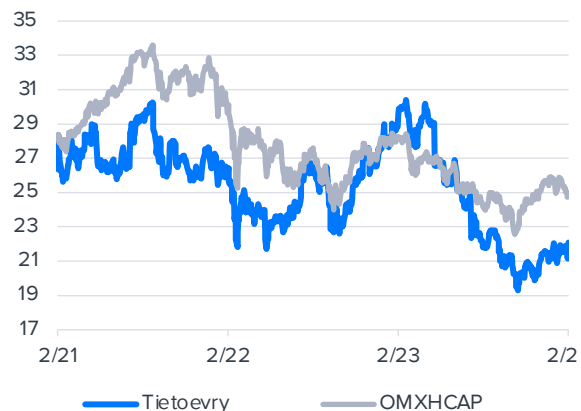
Source: Inderes

Guidance

(New guidance)

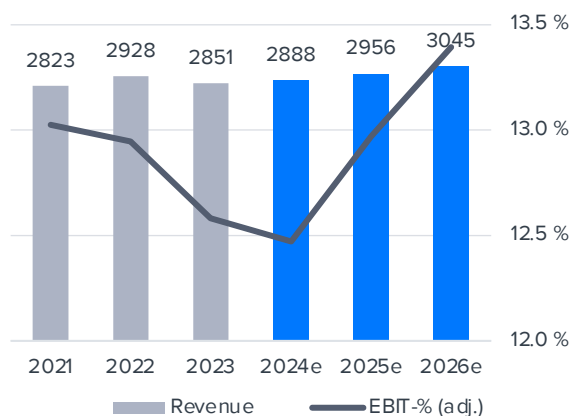
Tietoevry expects organic growth of 0-3 % and an adjusted EBITA margin of 12.0-13.0 % in 2024.

Share price



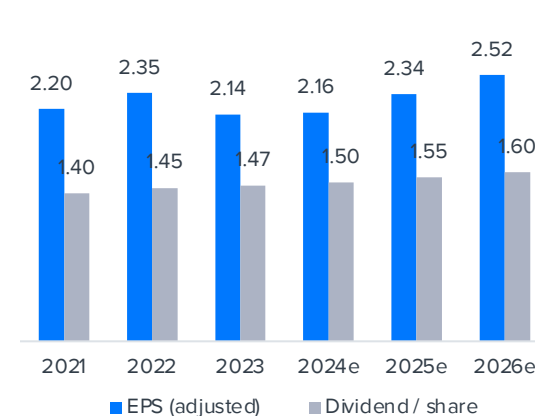
Source: Millstream Market Data AB

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
- 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 revenue and a failure in talent competition

Valuation	2024e	2025e	2026e
Share price	22.1	22.1	22.1
Number of shares, millions	118.4	118.4	118.4
Market cap	2617	2617	2617
EV	3495	3404	3296
P/E (adj.)	10.2	9.5	8.8
P/E	13.8	12.7	11.6
P/B	1.6	1.6	1.6
P/S	0.9	0.9	0.9
EV/Sales	1.2	1.2	1.1
EV/EBITDA	8.2	7.6	7.0
EV/EBIT (adj.)	9.7	8.9	8.1
Payout ratio (%)	93.9 %	89.0 %	83.7 %
Dividend yield-%	6.8 %	7.0 %	7.2 %

Source: Inderes

Operational lines met expectations in Q4

Revenue continued to grow organically, although growth slowed as expected

Tietoevry's Q4 revenue decreased by 2% to 752 MEUR, which was in line with our and consensus expectations. Organically, revenue increased by 1% (Q1: 8%, Q2: 3% and Q3: 2%). Exchange rates still had a large negative impact of 43 MEUR on revenue. Business acquisitions, in turn, had a positive impact of 17 MEUR. By business, organic growth was driven by Industry (6%), Care (2 %) and Banking (5%). Growth was slowed down by Create (+1%) Tech Services (-2%). However, we feel organic growth as a whole was still positive considering the market situation, even though it slowed down well below the strong level of the previous 12 months (5 % on average). The order backlog was at the level of the comparison period, which in a way is cautiously positive, as the market situation in the comparison period was better and it decreased by 1% in Q3.

Result was in line with our expectations

In Q4, Tietoevry's EBITA margin was 14.4%, in line with our and market estimates of 14.6%. EBITA adjusted for one-off items amounted to 108 MEUR in Q4 (Q4'22: 118 MEUR) and was also in line with our and market estimates (109-110 MEUR). The result was still constrained by inflation (not just wage inflation). Wage inflation was around 5% in 2023 and the company estimates it to be 4-5% in 2024. In addition, profitability was supported by lower employee turnover (Q4'23: 10% vs Q4'22: 14%). Thus, the talent market does not provide as much headwind this year either. At business level, the efficiency measures were particularly successful in the Tech Services unit and adjusting the number of personnel to lower demand in Create. Financing costs were slightly higher than expected and thus, adjusted EPS was EUR 0.63 in Q4 and below both our and market expectations (0.67-0.64).

Tietoevry's expectations

Tietoevry predicts that the weakness of the IT market will continue in 2024. The company expects that its key operational markets will grow on average by 0-2% this year.

Tietoevry estimates organic growth will be 0-3% in the full-year 2024. The company expects growth to be at the bottom of the estimate if market uncertainty continues in the second half of the year, and correspondingly at the top if the market strengthens gradually during the year. The company estimates that growth will be lowest in Q1 due to the continued weak market, high comparison figures and Tietoevry Create and Banking businesses, as well as negative impact of working days.

Estimates MEUR / EUR	Q4'22	Q4'23	Q4'23e	Q4'23e	Consensus		Difference (%)	2023
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	768	752	750	752	731	- 770	0%	2851
EBIT (adj.)	118	108	109	110	99	- 117	-1%	359
EBIT	103	84	87	86	74	- 92	-3%	256
PTP	95	71	78	78	68	- 84	-10%	221
EPS (adj.)	0.73	0.63	0.67	0.64	0.51	- 0.71	-6%	2.14
EPS (reported)	0.63	0.46	0.52	0.52	0.43	- 0.57	-12%	1.45
DPS	1.45	1.47	1.50	1.50	1.34	- 1.55	-2%	1.47
Revenue growth-%	3.5 %	-2.0 %	-2.4 %	-2.0 %	-4.8 %	- 0.3 %	0.3 pp	-2.6 %
EBIT-% (adj.)	15.3 %	14.4 %	14.6 %	14.6 %	13.6 %	- 15.1 %	-0,2 %-yks.	12.6 %

Source: Inderes & Vara Research, 11 estimates (consensus)



Watch the Q4 earnings webcast:



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 2024 the company estimates organic growth to be 0-3% and adjusted EBITA to be 12.0-13.0%. In addition, the company aims to maintain the net debt/EBITDA ratio at 1-2x (excl. IFRS16 liabilities) 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. The company was successful in organic growth in several segments in 2022 and Q1'23 (3/5 of the businesses have been operating at target levels), but the challenging market situation has slowed down the growth rate in some businesses. In terms of profitability, 2/5 of the businesses have been operating within target levels in the past year or so.

Separation of the banking business

In connection with Q2'22, Tietoevry announced that it had decided to launch a strategic assessment of its Tietoevry Banking business. In Q4'23, the company announced that it would primarily seek listing on the Helsinki stock exchange in late Q2'24, but it still considers divestment as another option. 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 demerger news was very welcome. 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 good 12 months, which supports the price in a demerger.

Separation of Tietoevry Tech Services business

Tietoevry announced in November 2022 that it will also demerge Tietoevry Tech Services that focus on continuous services and transformation (previously Tietoevry Transform and Tietoevry Connect). 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 1.2 BNEUR 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.

The strategic assessment of the Banking business ended in connection with the Q4'23 report. Tech Service's strategic assessment is likely to end in Q2'24.

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 1.7 BNEUR 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 cut our estimates slightly driven by the challenging market

Estimate revisions 2024e–2025e

- We made small adjustments to the operational forecasts due to the prolonged market challenges.
- At the same time, we cut our dividend forecasts a bit. If the divestment of the Tech Services business proceeds as expected and a good price is obtained, we also consider an additional dividend possible at some point. This also depends on solvency, which was 2.2x measured by net debt/EBITDA and above the target level of 1-2x.

Estimates

- We expect that Tietoevry will grow by 1% organically in 2024 and cautiously by 2-3% in 2025-2026 (2022: 6% and 2023: 4%). The forecasts are therefore well below the 8-10% financial targets driven by market weakness.
- We estimate that adjusted EBITA will gradually rise to 13% in 2025, driven mainly by scalable software and efficiency measures. The estimates are below the company's 15-16% target due to demand challenges, continued strong headwinds of inflation, especially in developing countries, and the challenges of transferring this pressure on customer prices.

Operational result drivers 2024e:

- Price increases support the development somewhat.
- Efficiency programs support the development and we expect the company to launch new ones.
- Tietoevry estimates wage inflation to average 4-5% in 2024 (2022: 4% and 2023: 5%). In addition, turnover has continued to decline and supports profitability.
- Tietoevry expects non-recurring costs to be about 1.0 % of revenue in 2024. The company also estimates that the strategic assessments will generate 0.3-0.8% in costs relative to revenue.

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	2023	2023	Change	2024e	2024e	Change	2025e	2025e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	2849	2851	0%	2912	2888	-1%	2983	2956	-1%
EBITDA	409	408	0%	453	428	-6%	459	447	-3%
EBIT (exc. NRIs)	360	359	0%	375	360	-4%	396	383	-3%
EBIT	258	256	-1%	304	275	-9%	306	294	-4%
PTP	228	221	-3%	270	239	-11%	275	261	-5%
EPS (excl. NRIs)	2.19	2.14	-2%	2.27	2.16	-5%	2.43	2.34	-4%
DPS	1.50	1.47	-2%	1.55	1.50	-3%	1.60	1.55	-3%

Source: Inderes

Valuation 1/2

Peer group

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. A lower valuation is supported by the weak revenue development and profitability in the largish Tech Services business (to be separated in 2024). We have also considered the 'constant' restructuring costs, which are higher for Tietoevry than its peers. Tietoevry expects restructuring costs to be 1.0% of revenue (excluding costs of strategic assessments), which corresponds to some 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 adjusted P/E and EV/EBIT ratios for 2024 are 10x or good 40% below peers. In our view, the absolute valuation of the share is attractive and the relative valuation is highly attractive. The company adjusts some 10% more costs from its result than its Finnish peers and considering this the share is still very attractively priced. The reported P/E ratio is 14x and 13x for 2024-2025, but includes PPA depreciation of some 10% of EBIT or 40 MEUR annually, which we adjust from other companies in the sector because it does not affect cash flow and describes operational activities. 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 back to the levels at the turn of 2022-23 (6-9%). The second, and at present the clearest,

"dismantler", is the planned business separations that would clarify the structure and bring better growth and profitability conditions for the new business entities. Third, the strategy and segment structure enables new efficiency when segments have their own stronger focus, which was already previously visible as strong organic growth.

The company has been communicating for some time that it is active on the M&A front, which may involve acquisitions (like MentorMate) 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 ~6% annual earnings growth in 2025-2026 (compared to 2024 level), driven by growth and profitability. With our growing dividend estimates and average 90% payout ratio the dividend yield is around ~7%. A strong cash flow continuously strengthens the balance sheet and provides a good basis for profit distribution and/or inorganic growth. In addition, the Tech Service divestment allows for an additional dividend, which depends on the sales price and gearing at the time.

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 share, consisting solely of dividend yield and earnings growth, is close to 15% and considering the upside in multiples around 15%. This is an attractive level, especially given the relatively low risk profile of the company's business.

Valuation	2024e	2025e	2026e
Share price	22.1	22.1	22.1
Number of shares, millions	118.4	118.4	118.4
Market cap	2617	2617	2617
EV	3495	3404	3296
P/E (adj.)	10.2	9.5	8.8
P/E	13.8	12.7	11.6
P/B	1.6	1.6	1.6
P/S	0.9	0.9	0.9
EV/Sales	1.2	1.2	1.1
EV/EBITDA	8.2	7.6	7.0
EV/EBIT (adj.)	9.7	8.9	8.1
Payout ratio (%)	93.9 %	89.0 %	83.7 %
Dividend yield-%	6.8 %	7.0 %	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. After the separation, three new entities would be created. The demerger of the Banking business will take place at the end of Q2 and more information on Tech Services will be provided by Q2.

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. The clearest risk in our view is that the company will not be able to price enough buyer synergies in the purchase price.

In our view, the EV/EBITA multiples we use reflect growth and profitability profiles, peers and business continuity. We have used our 2024 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.

With the multiples we apply, Tietoevry's unleveraged value is 4.2 BNEUR, which corresponds to a per share value of EUR 27.6 with the estimated net debt at the end of 2024 (was EUR 26.8) Thus, there is a clear upside in the share through the sum of the parts.

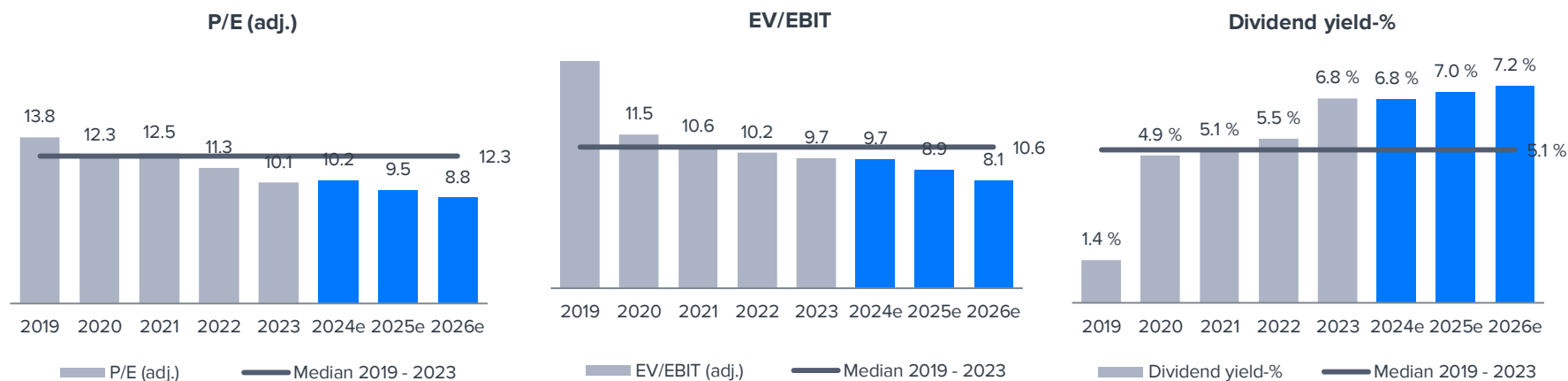
Sum-of-the-parts calculation

Segments	Revenue growth 2024	EBITA-% 2024	EBITA	EV/EBITA multiple	EV	Revenue growth target	EBITA-% target 2025
Tietoevry Create	1%	13%	112	13x	1,462	14-16%	14-16%
Tietoevry Banking	4%	13%	76	13x	986	10-12%	16-18%
Tietoevry Care	3%	30%	73	13x	945	12-14%	28-30%
Tietoevry Industry	3%	17%	45	11x	499	8-10%	20-22%
Tietoevry Tech Services	-4%	7%	76	7x	532	2-4%	10-12%
Others			-24	11.4x	-274		
Group total	0.6%	12.5%	358	11.6x	4,151		
Net debt					880		
Market cap					3,271		
Share price					27.6		

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	27.7	26.9	27.5	26.5	21.5	22.1	22.1	22.1	22.1
Number of shares, millions	67.9	118.4	118.4	118.4	118.4	118.4	118.4	118.4	118.4
Market cap	3283	3181	3254	3140	2551	2617	2617	2617	2617
EV	4067	4097	3900	3851	3494	3495	3404	3296	3215
P/E (adj.)	13.8	12.3	12.5	11.3	10.1	10.2	9.5	8.8	8.5
P/E	23.8	33.7	11.2	16.7	14.8	13.8	12.7	11.6	11.1
P/B	1.9	2.0	1.8	1.8	1.6	1.6	1.6	1.6	1.5
P/S	1.9	1.1	1.2	1.1	0.9	0.9	0.9	0.9	0.8
EV/Sales	2.3	1.5	1.4	1.3	1.2	1.2	1.2	1.1	1.0
EV/EBITDA	17.7	12.7	7.1	9.0	8.6	8.2	7.6	7.0	6.7
EV/EBIT (adj.)	20.7	11.5	10.6	10.2	9.7	9.7	8.9	8.1	7.7
Payout ratio (%)	59.5 %	165.4 %	56.9 %	91.1 %	101.1 %	93.9 %	89.0 %	83.7 %	75.0 %
Dividend yield-%	1.4 %	4.9 %	5.1 %	5.5 %	6.8 %	6.8 %	7.0 %	7.2 %	6.8 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
	MEUR	MEUR	2025e	2026e	2025e	2026e	2025e	2026e	2025e	2026e	2025e	2026e
Digia*	142	156	8.3	7.0	6.9	5.9	0.8	0.7	10.4	9.0	3.6	4.0
Digital Workforce*	37	21	21.9	7.5	18.2	6.9	0.8	0.7	43.7	17.2		
Gofore*	359	319	12.1	9.2	11.0	8.6	1.6	1.3	17.0	14.0	2.2	2.5
Loihde*	74	60	13.1	9.6	5.1	4.3	0.5	0.4	18.6	14.6	2.5	2.7
Innofactor*	50	56	8.1	6.5	5.6	4.8	0.7	0.6	10.1	8.4	5.7	6.4
Netum Group*	34	43	11.2	9.5	9.9	8.5	0.9	0.8	11.3	9.9	4.5	5.3
Silli Solutions*	75	73	8.1	7.1	5.9	5.2	0.6	0.5	12.1	10.8	3.2	3.8
Solteq*	15	43	15.1	11.6	5.6	7.1	0.8	0.7	26.5	14.5		
Vincit*	48	36	6.9	4.5	6.0	4.0	0.4	0.3	12.2	8.3	5.1	6.8
Witted Megacorp*	28	19	12.2	5.8	11.9	5.8	0.3	0.3	19.6	11.2		
Bouvet	552	586	15.6	13.8	12.8	11.5	1.7	1.5	18.9	16.6	4.8	5.7
CombinedX	62	60	7.7	7.0	5.5	5.2	0.8	0.8	10.6	9.6		
Knowit	377	464	15.5	11.6	7.7	6.7	0.8	0.7	17.5	12.4	3.7	4.6
Avensia AB	31	33	10.1	7.2	7.5	6.0	0.9	0.8	12.0	9.5	3.2	5.3
Netcompany Group	1939	2230	21.0	17.1	15.1	12.9	2.5	2.3	24.9	19.5		
Wipro	30165	27860	18.3	16.5	14.9	13.6	2.8	2.6	24.7	21.9	1.1	1.9
Tata Consultancy	166661	162724	24.2	21.7	22.3	20.1	6.0	5.5	32.4	29.1	1.8	2.5
Atos SE	268	3619	7.5	7.7	3.8	3.2	0.3	0.3	1.0	0.7		
Capgemini SE	37974	40023	13.8	12.6	11.0	10.0	1.7	1.6	18.2	16.5	1.6	1.8
IBM	156357	196619	18.2	17.0	13.2	12.7	3.3	3.2	18.2	17.2	3.7	3.8
Accenture	230757	224934	23.5	21.5	19.4	17.7	3.6	3.4	30.2	27.4	1.3	1.4
Tietoevry (Inderes)	2617	3495	8.9	8.1	7.6	7.0	1.2	1.1	9.5	8.8	7.0	7.2
Average			13.9	11.0	10.4	8.6	1.5	1.4	18.6	14.2	3.2	3.9
Median (all)			13.1	9.5	9.9	6.9	0.8	0.8	18.2	14.0	3.2	3.8
<i>Diff.-% to median</i>			-32%	-15%	-23%	1%	39%	37%	-48%	-37%	117%	90%
Median Finnish companies			11.7	7.3	6.4	5.8	0.7	0.6	14.6	11.0	3.6	4.0
<i>Diff.-% to median</i>			-24%	11%	19%	21%	61%	75%	-35%	-20%	95%	82%
Median international companies			15.6	13.8	12.8	11.5	1.7	1.6	18.2	16.6	2.5	3.2
<i>Diff.-% to median</i>			-43%	-41%	-40%	-39%	-33%	-33%	-48%	-47%	182%	129%

Source: Refinitiv / *Inderes' adjusted estimate. NB! Market cap used by Inderes dos not consider own shares held by the company.

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	2928	744	695	660	752	2851	730	703	676	779	2888	2956	3045	3144
Tietoevry Create		188	188	172	207	851	218	209	201	235	864	890	943	990
Tietoevry Banking		114	120	112	130	567	147	144	141	156	587	634	678	719
Tietoevry Care		54.4	61.5	48.9	57.1	236	64.0	60.9	53.9	64.8	244	256	274	290
Tietoevry Industry		82.9	78.5	67.4	74.6	263	70.1	65.7	63.9	71.3	271	287	305	323
Tietoevry Tech Services		121	119	105	122	1075	266	258	243	283	1049	1007	957	928
Eliminations		-76	-77	-73	-83	-141	-35	-34	-26	-30	-126	-117	-111	-106
EBITDA	429	107	80.2	98.1	123	408	101	86	109	133	428	447	471	481
Depreciation	-162.2	-39	-39	-36	-38	-152	-38	-38	-38	-38	-152	-153	-154	-154
EBIT (excl. NRI)	379	92	73	86	108	359	89	74	87	111	360	383	408	419
EBIT	266	69	41	62	84	256	63	48	71	94	275	294	317	327
Group items and NRIs	-112.9	-23	-32	-24	-24	-103	-26	-26	-16	-16	-85	-89	-91	-92
Net financial items	-23.7	-6	-7	-8	-14	-35	-9	-9	-9	-10	-36	-33	-31	-28
PTP	243	62	35	53	71	221	54	39	62	85	239	261	287	299
Taxes	-54.2	-14	-7	-12	-16	-49	-11	-8	-13	-18	-50	-55	-60	-63
Net earnings	188	48	27	41	55	172	43	30	49	67	189	206	226	236
EPS (adj.)	2.35	0.56	0.44	0.51	0.63	2.14	0.54	0.43	0.52	0.67	2.16	2.34	2.52	2.61
EPS (rep.)	1.59	0.41	0.23	0.35	0.46	1.45	0.36	0.26	0.41	0.57	1.60	1.74	1.91	1.99
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	3.7 %	1.8 %	-6.0 %	-4.4 %	-2.0 %	-2.6 %	-1.9 %	1.1 %	2.5 %	3.6 %	1.3 %	2.4 %	3.0 %	3.3 %
Adjusted EBIT growth-%	3.1 %	8.5 %	-7.6 %	-12.5 %	-7.9 %	-5.4 %	-3.0 %	1.0 %	1.4 %	2.1 %	0.4 %	6.5 %	6.4 %	2.7 %
EBITDA-%	14.6 %	14.4 %	11.5 %	14.9 %	16.3 %	14.3 %	13.8 %	12.2 %	16.1 %	17.0 %	14.8 %	15.1 %	15.5 %	15.3 %
Adjusted EBIT-%	12.9 %	12.3 %	10.5 %	13.0 %	14.4 %	12.6 %	12.2 %	10.5 %	12.8 %	14.2 %	12.5 %	13.0 %	13.4 %	13.3 %
Net earnings-%	6.4 %	6.5 %	3.9 %	6.3 %	7.3 %	6.0 %	5.9 %	4.3 %	7.2 %	8.6 %	6.5 %	7.0 %	7.4 %	7.5 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	2565	2619	2579	2546	2514
Goodwill	1847	1907	1907	1907	1907
Intangible assets	337	340	293	248	203
Tangible assets	299	285	298	310	323
Associated companies	14.2	11.6	11.6	11.6	11.6
Other investments	16.2	16.7	10.0	10.0	10.0
Other non-current assets	20.6	34.7	34.7	34.7	34.7
Deferred tax assets	31.4	24.5	24.5	24.5	24.5
Current assets	829	899	740	757	779
Inventories	5.6	8.6	0.0	0.0	0.0
Other current assets	23.6	17.5	17.5	17.5	17.5
Receivables	550	654	635	621	609
Cash and equivalents	250	220	86.6	118	152
Balance sheet total	3394	3518	3319	3303	3293

Source: Inderes

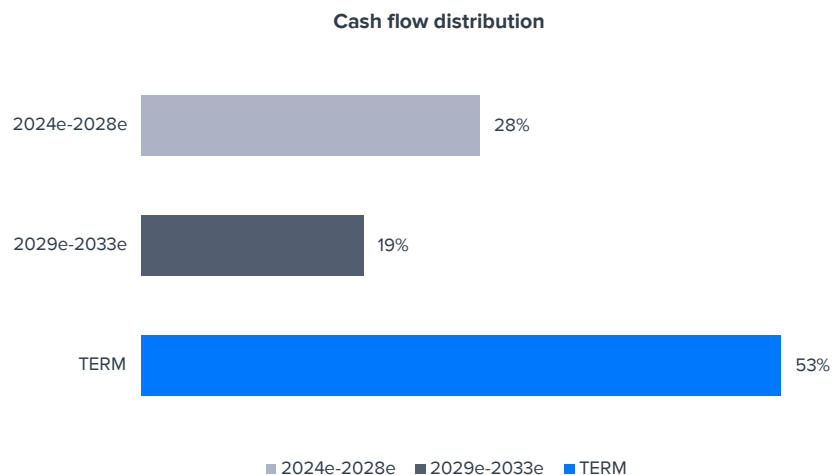
Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	1719	1612	1587	1616	1659
Share capital	116	116	75.8	75.8	75.8
Retained earnings	400	293	308	337	379
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	1204	1204	1204	1204	1204
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	891	803	764	746	719
Deferred tax liabilities	24.6	47.5	47.5	47.5	47.5
Provisions	21.7	17.1	17.1	17.1	17.1
Interest bearing debt	795	701	662	644	617
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	49.4	37.3	37.3	37.3	37.3
Current liabilities	783	1103	967	941	915
Interest bearing debt	165	462	303	261	214
Payables	619	641	664	680	700
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	3394	3518	3319	3303	3293

DCF calculation

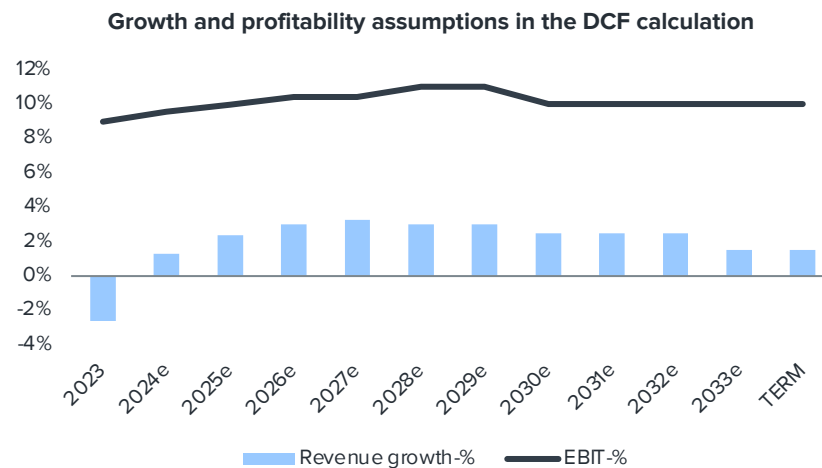
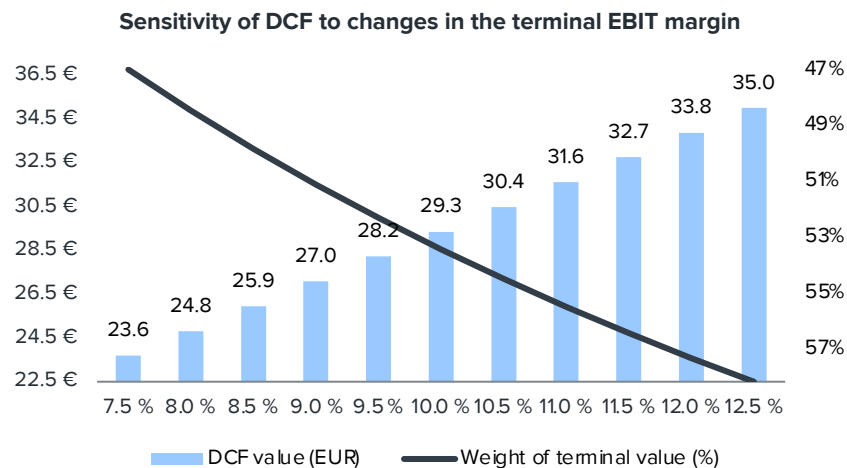
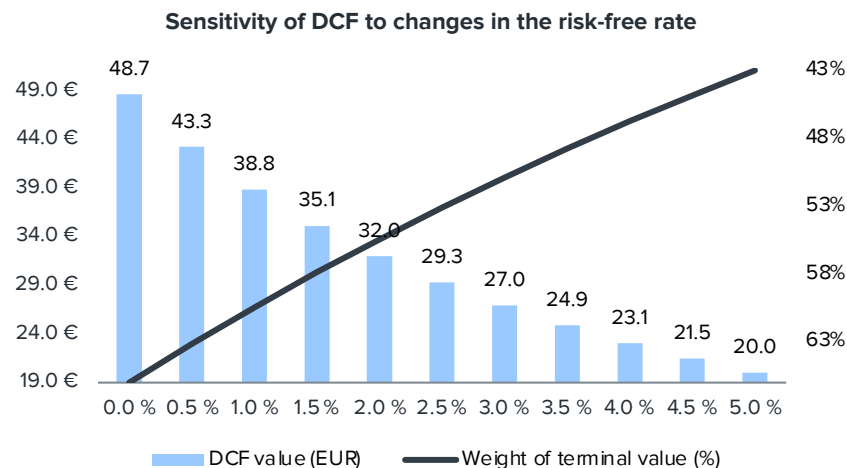
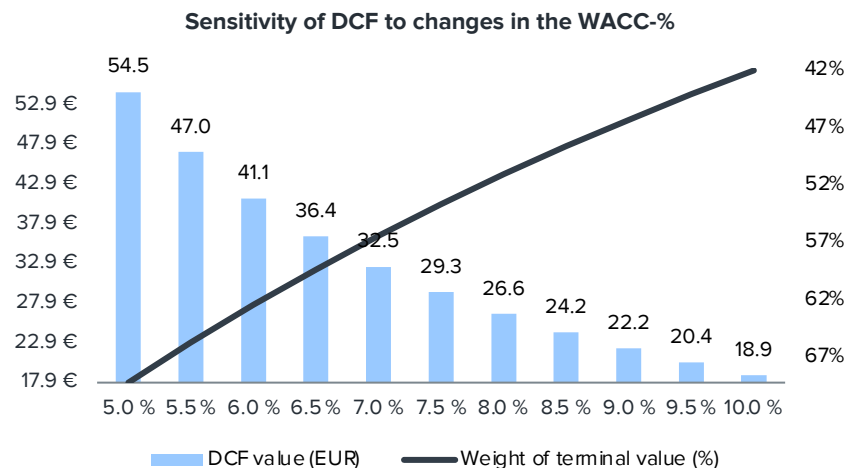
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-2.6 %	1.3 %	2.4 %	3.0 %	3.3 %	3.0 %	3.0 %	2.5 %	2.5 %	2.5 %	1.5 %	1.5 %
EBIT-%	9.0 %	9.5 %	9.9 %	10.4 %	10.4 %	11.0 %	11.0 %	10.0 %	10.0 %	10.0 %	10.0 %	10.0 %
EBIT (operating profit)	256	275	294	317	327	356	367	342	350	359	365	
+ Depreciation	152	152	153	154	154	154	136	133	131	130	130	
- Paid taxes	-18.8	-50.3	-54.8	-60.2	-62.7	-69.8	-72.8	-68.1	-70.4	-72.7	-74.4	
- Tax, financial expenses	-7.8	-7.7	-7.1	-6.6	-6.0	-5.1	-4.4	-3.9	-3.4	-2.9	-2.4	
+ Tax, financial income	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
- Change in working capital	-78.1	50.2	30.2	32.2	3.0	2.8	2.9	2.5	2.6	2.6	1.6	
Operating cash flow	304	420	416	437	415	438	429	405	410	416	419	
+ Change in other long-term liabilities	-16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-216.3	-112.3	-120.3	-121.5	-122.8	-124.1	-125.4	-126.8	-128.1	-129.5	-136.3	
Free operating cash flow	70.5	308	295	315	292	314	303	278	282	287	283	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	70.5	308	295	315	292	314	303	278	282	287	283	4796
Discounted FCFF		289	258	256	221	221	198	169	160	151	139	2351
Sum of FCFF present value		4413	4124	3866	3610	3389	3168	2970	2800	2640	2489	2351
Enterprise value DCF		4413										
- Interest bearing debt		-1163.1										
+ Cash and cash equivalents		220										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		3470										
Equity value DCF per share		29.3										

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



DCF sensitivity calculations and key assumptions in graphs



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

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	2823	2928	2851	2888	2956	EPS (reported)	2.46	1.59	1.45	1.60	1.74
EBITDA	552	429	408	428	447	EPS (adj.)	2.20	2.35	2.14	2.16	2.34
EBIT	382	266	256	275	294	OCF / share	4.42	2.37	2.56	3.55	3.51
PTP	354	243	221	239	261	FCF / share	3.27	2.04	0.60	2.60	2.49
Net Income	292	188	172	189	206	Book value / share	15.38	14.52	13.62	13.41	13.65
Extraordinary items	14	-113	-103	-85	-89	Dividend / share	1.40	1.45	1.47	1.50	1.55
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	3587	3394	3518	3319	3303	Revenue growth-%	1%	4%	-3%	1%	2%
Equity capital	1821	1719	1612	1587	1616	EBITDA growth-%	71%	-22%	-5%	5%	5%
Goodwill	1944	1847	1907	1907	1907	EBIT (adj.) growth-%	4%	3%	-5%	0%	6%
Net debt	646	710	944	878	787	EPS (adj.) growth-%	1%	7%	-9%	1%	8%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	19.6 %	14.6 %	14.3 %	14.8 %	15.1 %
EBITDA	552	429	408	428	447	EBIT (adj.)-%	13.0 %	12.9 %	12.6 %	12.5 %	13.0 %
Change in working capital	19	-83	-78	50	30	EBIT-%	13.5 %	9.1 %	9.0 %	9.5 %	9.9 %
Operating cash flow	523	281	304	420	416	ROE-%	16.9 %	10.6 %	10.3 %	11.8 %	12.9 %
CAPEX	-111	-15	-216	-112	-120	ROI-%	13.7 %	9.8 %	9.4 %	10.4 %	11.6 %
Free cash flow	387	242	71	308	295	Equity ratio	50.8 %	50.7 %	45.8 %	47.8 %	48.9 %
						Gearing	35.5 %	41.3 %	58.5 %	55.3 %	48.7 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	1.4	1.3	1.2	1.2	1.2						
EV/EBITDA (adj.)	7.1	9.0	8.6	8.2	7.6						
EV/EBIT (adj.)	10.6	10.2	9.7	9.7	8.9						
P/E (adj.)	12.5	11.3	10.1	10.2	9.5						
P/B	1.8	1.8	1.6	1.6	1.6						
Dividend-%	5.1 %	5.5 %	6.8 %	6.8 %	7.0 %						

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 €
9/20/2023	Accumulate	25.00 €	21.52 €
10/27/2023	Buy	25.00 €	19.51 €
1/17/2024	Accumulate	25.00 €	21.86 €
2/16/2024	Accumulate	25.00 €	22.10 €



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