

Efecte

Extensive report

12/2020

Cashing of growth ticket proceeding

We reiterate our accumulate recommendation and raise our target price to EUR 11.0 (previously EUR 9.2). Thanks to its successful SaaS transformation, Efecte has positioned itself well as a European option for global giants on the Enterprise Service Management market that is transitioning towards cloud-based solutions. There have been some bumps in Efecte's story since the 2017 IPO, but under new management in the past two years, the company has built a base for profitable growth and found a stable gear for long-term growth. A business model that is based on scalable growth, the transition on target markets, and the strong track record of the current management make Efecte's investor profile attractive.

Efecte is a software company that digitizes and automates enterprise services with a SaaS model

Organizations use Efecte's software to digitize and automate services produced by IT, HR and legal departments. The software, primarily intended for large and medium-sized enterprises, helps customers improve their support services and save costs by automating complex processes. The company has a strong market position in its target segment in Finland. Internationalization is still in its initial stages but on a good development track. The share of international operations is around 19% (2019) of total net sales and growing strongly. During the 2010s, Efecte also carried out a successful transformation to a SaaS business model.

Transition to cloud-based software continues and Efecte is well positioned to benefit from the transition

Relative to its size, Efecte's target market is big and grows strongly (19 % per year) thanks to the cloud transition. The low penetration of cloud-based services in Central Europe offers Efecte a long runway for growth. The position of Efecte, who has already completed its SaaS transformation, is strong among medium-sized customers because its European competitors are mostly lagging behind in the transformation. Efecte positions itself as a European option next to global giants.

Under its current management, Efecte's performance in scalable SaaS growth has been stable

Efecte's growth strategy took a wrong turn after the 2017 IPO when considerable growth investments did not generate the desired results. Under the new management that took over in later half of 2018, the company has built a base for long-term profitable growth and the results are starting to show. Throughout the 11 quarters during which the company has been listed, SaaS growth has continued at above the targeted 20% level, and in the past seven quarters, relative operating profit has improved as targeted. We estimate 20 to 25% SaaS growth and 6 to 18% growth of total net sales for 2020 to 2023. We see that Efecte has potential for over 20% EBIT level in the long run. However, in the short term, we expect profitability to rise more slowly as Efecte prioritizes its investments for international growth. The initial signs of the return potential of these investments are promising (H1'20 international growth +65%).

Valuation tightened in the short term but attractive in light of our estimates for coming years

With its performance over the past few years, Efecte has re-redeemed market confidence in its scalable growth, which supports its valuation. Profitability is still low due to Efecte's development stage and valuation relies on revenue-based multiples. Efecte's EV/Net sales multiples are 4.0x and 3.7x for 2020 and 2021 respectively. Valuation has tightened in the short term but when looking a few years ahead, the valuation is clearly more attractive considering the combination of increasing growth and profitability (2020e: 2%, 2023e: 27%).

Analysts

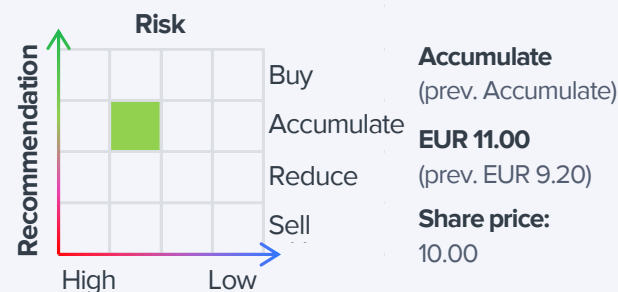


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Rating



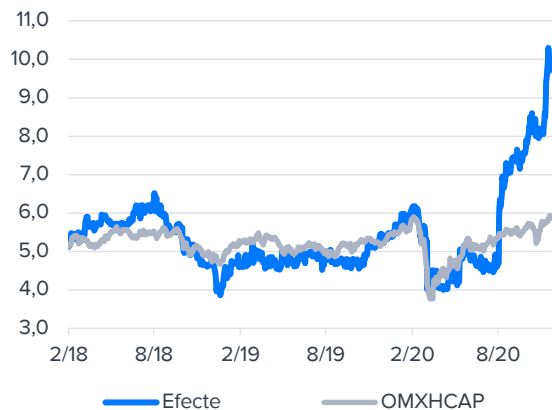
Key indicators

	2019	2020e	2021e	2022e
Net sales	13.8	14.6	16.2	19.1
Growth %	13%	6%	11%	18%
SaaS net sales	7.1	8.8	10.8	13.3
Growth %	23%	24%	23%	23%
EBIT adjusted	-1.4	-0.5	0.1	1.4
EBIT % adjusted	-10.0%	-3.6%	0.5%	7.2%
Net profit	-1.4	-0.6	0.1	1.4
EPS (adjusted)	-0.23	-0.09	0.01	0.22

P/E (adjusted)	neg.	neg.	>100	46.1
EV/EBIT (adjusted)	neg.	neg.	>100	43.3
EV/Net sales	2.1	4.0	3.7	3.1

Source: Inderes

Share price



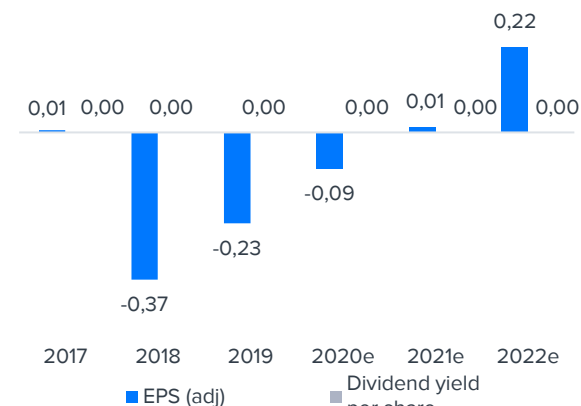
Source: Thomson Reuters

Net sales and EBIT %

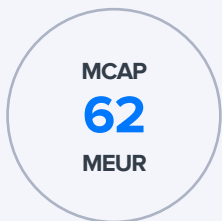


Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Considerable market potential and strongly growing demand
- Proven SaaS-based business model that strongly relies on scalability and recurring revenue
- Ready, scalable technology and clear competitive advantage in medium-sized companies
- International expansion and additional sales to existing customers

Risk factors

- Failure in growth investments and international expansion
- Changes in the competitive field and position
- Technological changes and security risks
- Growth strategy will depress cash flow to red and requires a successful result turnaround

Valuation

- Short-term value development is driven by the progress of growth investments and efficiency
- Valuation is sensitive to changes in growth expectations and the valuation level of the sector
- Valuation has tightened in the short term, but when looking a few years ahead it is clearly more attractive

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Efecte in brief

Efecte offers cloud-based (SaaS) software to enterprises to manage enterprise services. The software digitizes the company's service processes, helps prioritize requests, and enables automation in solving the requests. Efecte operates primarily in Finland, the Nordic countries and Germany.

1998

Year of establishment

2017

IPO

EUR 14.6 million (+6% vs. 2019)

Net sales 2020e

65%

Share of income from recurring net sales (last 12mo 9/2020)

17% 2013-2020e

Average annual net sales growth

EUR -0.1 million (-1% of net sales)

EBITDA, 2020e

EUR 9.2 million

Annualized SaaS net sales (APR) 9/2020

112 %

SaaS MRR net customer retention, last 12mo 6/2020

2012-2014

- Renewing the business model from a one-off license model to a SaaS model offering continues service begins
- Building of own sales and service organization
- Acquisition to complement technology expands the software solution to identity management

2015-2017

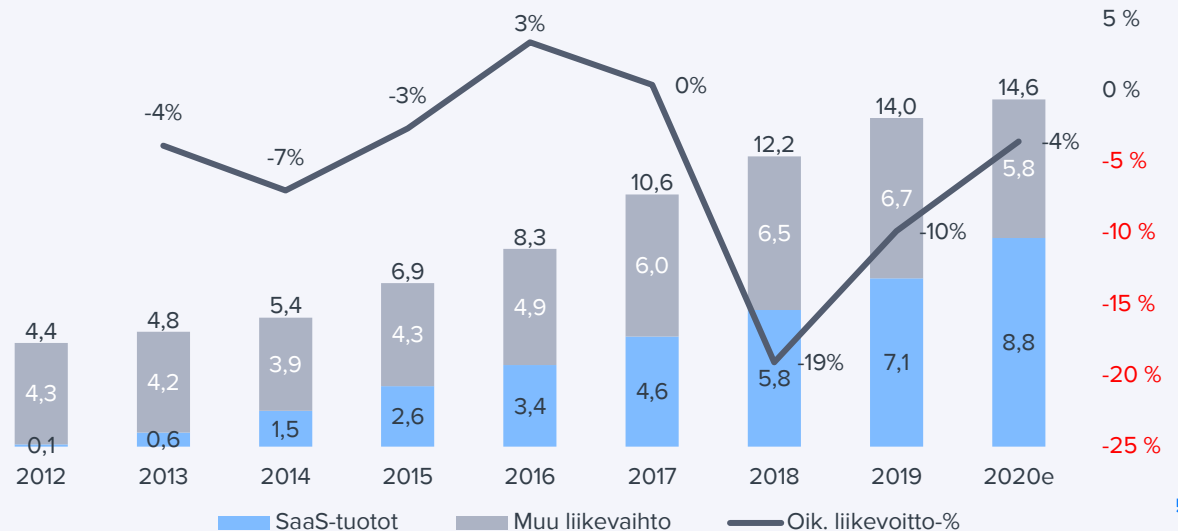
- Converting maintenance customers to SaaS customers, strong new sales and expansion of customer relationships raise SaaS net sales strongly, especially in Finland
- Growth investments in international operations and the support and service organization increase heavily towards the end of the period
- IPO at the end of 2017 to accelerate growth

2018

- Strong investments in expanding German operations
- Growth investments depress profitability clearly into red, international sales not performing as expected
- Challenges related to high personnel turnover and operational reliability of the cloud environment
- CEO change at the later half of 2018
- Strategy specified to focus more on SaaS income

2019-2020

- Investments in more international culture ("One Efecte"), personnel satisfaction and cloud infrastructure
- Changes in the Leadership team
- Investments in improving growth scalability through partner program and digital sales & marketing begins



Company description and business model 1/3

Efecte digitizes and automates enterprise services with SaaS software

Company employees sometimes need support to carry out their work. When, e.g. an employee's laptop won't start in the morning or equipment, access pass and user IDs are needed for a new employee, this usually requires help. In larger enterprises there are a lot of these requests, which means that solving them requires a lot of time and coordinating these tasks becomes difficult. Efecte's software moves these requests from the office corridors, Excel spreadsheets and e-mails to digitized, helps automate their processing and solving, and offers tools to prioritize and direct the requests. Efecte can be used in a versatile fashion to, e.g. manage various enterprise services (ESM) in IT (ITSM), HR, financial and legal departments, and in managing access rights (IAM). In addition to cloud-based software, Efecte offers related implementation, integration and development services. With the solution, the customer can improve the service experience and save costs thanks to automation.

Efecte was founded in Finland in 1998 and it was listed on the First North marketplace in 2017 with the objective to carry out a growth and internationalization strategy directed especially at the German market. Efecte is specialized in serving medium-sized European companies and public sector players, as well as locally and regionally operating companies that offer outsourcing services. Within its area of expertise, Efecte is one of the leading software providers in Finland.

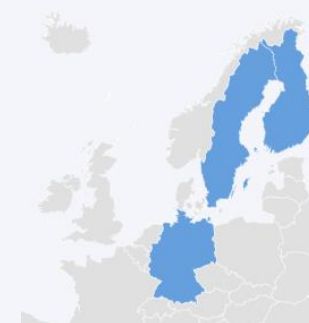
Business core built around SaaS net sales and supporting services

Efecte's transition to a cloud-based and recurring revenue-focused SaaS business model that started in 2013 has practically been completed. In 2020e, 93% of the company's net sales is generated from SaaS income and related services, and the share in net sales of income from the receding one-off license model has decreased to 7%. Efecte's SaaS business model is highly scalable, but the profitability of the model will be realized only with sufficient net sales.

Efecte's income flow is divided into three parts: 1) SaaS, 2) Services, 3) Support and maintenance. Of these, SaaS that is a core business according to Efecte's strategy, is growing strongly and services that support it are growing more moderately. Support and maintenance income of the old business model is decreasing as customers that are using the software based on old contract models transfer to the SaaS model. The share of recurring income (SaaS and Support and maintenance) in Efecte's net sales is around 65%.

Our 2020e estimate for Efecte's net sales is EUR 14.6 million (growth +6% y-o-y). Of this, SaaS income forms EUR 8.8 million in net sales (+24% y-o-y) or 60% of total net sales (2019: 51%). Net sales from services in 2020e will, in turn, be EUR 4.8 million (-8% y-o-y) or 33% of total net sales (2019: 38%). Income from Support and maintenance has nearly faded away at EUR 0.9 million or 7% of net sales (2019: 9%).

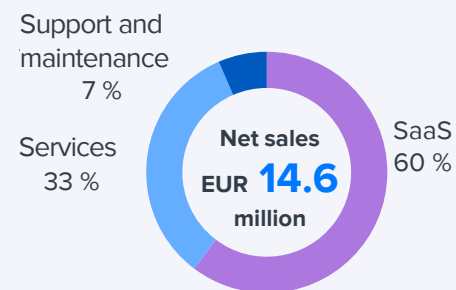
Efecte's operating profit will be EUR -0.5 million in red in 2020e (-3.7% of net sales) due to the company's growth stage but still on a clearly improving trend (2019: -10.0%).



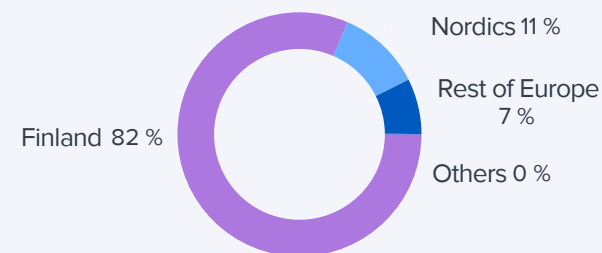
Operating countries (Number of personnel, Q3/20)

- Total 102
- Finland (85)
 - Sweden (6)
 - Germany (11)

Net sales by source, 2020e



Net sales geographically, 2019



ITSM = Information Technology Service Management, ESM = Enterprise Service Management, IAM = Identity and Access Management, IGA = Identity Governance and Administration

Partners



Ecosystem partners
(Integration, value added products)



Service resale and implementation partners

Operations

Products and product development (17%)



Services & training (38% *)



Cloud operating & support (16% *)



Sales (19% *)



Administration (10% *)

* Share of personnel 6/2020

Business idea

efecte

Efecte's software offered with the SaaS model digitizes and automates enterprises' service operations, as well as identity and access management.

- Cloud-based software (SaaS)
- Fast implementation and low overall costs
- Extensive product that is easily modified and integrated, and easy to use
- Customer-oriented operating model

Sales channels



Own sales in Finland, Germany (DACH) and Scandinavia



Resellers and partners that also supply solutions

Competition

ITSM/ESM

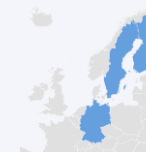


IAM



Customer segments

3 main markets



Finland
Nordic countries
DACH

Over 300 customers



Medium-sized companies



Public sector



Companies that offer outsourced service management

Cost structure



Personnel costs
(64% of costs)



Materials and services
(8%)

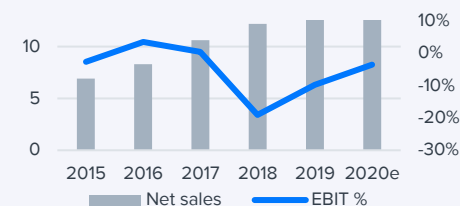
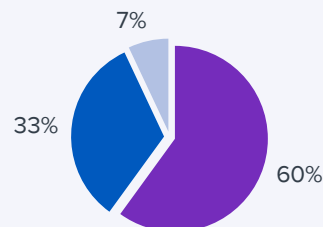


Other operating expenses
(25%)

Depreciation
(3%)

Income flow

Net sales EUR 14.6 million
EBIT EUR -0.5 million (2020e)



Company description and business model 2/3

Efecte's main product is service management and identity management software

Efecte's main product is the cloud-based software platform **Efecte Platform** designed for IT service, enterprise service and identity management. The platform consists of two independent software solutions:

- **Service management (ITSM/ESM).** This covers the **Efecte ITSM software solution** directed at IT service management (ITSM) with which you can e.g. manage IT services, create tickets for detected problems, manage service levels (SLA), automate processes, manage IT assets, and offer help desk and self-services. The other side of service management is **Efecte ESM**, with which you can manage, steer and develop, e.g. HR, financial, legal and real estate services. The solution also includes **Efecte IGA** that enables access request management.
- **Identity and access management (IAM).** With the **Efecte IAM** solution, you can, e.g. authenticate users, manage access rights and approval of personal data by service, as well as automate workflows related to data security issues.

Efecte also offers other services, including

- **Expert services:** Implementation project and integrations services for Efecte's software.
- **Support services:** Support, product consultation and maintenance services for Efecte's solutions.
- **Training and consulting services:** Support services for the use and development of Efecte's solutions.

Efecte's main customers are medium-sized companies, the public sector and service providers

Efecte's products stand out from the competition especially through the flexibility of the platform, pricing and a flexible customer-oriented approach. The competitive advantages respond best to the needs of medium-sized companies, the public sector and service providers. Efecte's products are best-suited for the European market and local organizations.

Within customer organizations, Efecte's typical customer is the IT department, but the role of support organizations (HR, legal) and business operations is growing as customers. Efecte has over 300 organizations as its customers in Finland and abroad. Reported customers in Finland include, e.g. Musti Group, Valmet Automotive, Tikkurila and Mehiläinen and abroad, e.g. Hotelplan Group, Bechtle Hamburg and the Church of Sweden. Efecte's solution is flexible and meets customers' needs regardless of the industry. Thus, the customer base is not tied to a particular industry and is widely distributed across various industries. One clear customer industry is, however, companies that offer outsourced enterprise services for whom Efecte's solution plays a business-critical role.

The ten largest customers have represented some 30% of Efecte's net sales in previous years and the share of a single customer has not exceeded 10% in recent years. According to our estimate, public sector customers generate around one-third of net sales and providers of outsourced services less than one-fifth.

Use case example of the product*



VALMET AUTOMOTIVE

Valmet Automotive annually manages a flow of more than 1,000 new employees and enterprise services with the help of Efecte



A new employee is recruited, and their manager enters the information in the HR system

Efecte's software receives information on a new employee from the HR system, and **preparation for the person starting work begins on Efecte's platform**

Through Efecte's integration you:

- **Order access passes**, whose access rights are determined based on the role
- **Order a ready-made equipment package** (phone, computer, production equipment) based on the role
- **Open a user-interface for the employee** to which requests for e.g. new work equipment or IT support are submitted and where they can see the progress of the requests
- **Manage possible approvals** of requests centrally
- **Automate the implementation of requests** using Efecte's workflow solution

effecte



Clear process to manage volume



Automation saves time and money



Security improves with analytics

*The example is simplified and illustrative and may differ from the exact process

Source: Efecte, Valmet Automotive

Company description and business model 3/3

Own sales channel still key, but role of partners will grow in future

Efecte primarily sells its solutions through its own sales channel where the company has a total of some 20 sales personnel in Finland, Germany and Sweden. During 2020, Efecte has focused on digital sales and marketing with the aim to improve the scalability of its own sales.

Efecte has also built partnerships where IT service houses and consultants offer Efecte's solutions as part of their services. Examples of such partners are the German Bechtle Hamburg and the Finnish Elmo ICT. Efecte has increased investments in developing partner sales during 2020 and sales through partners is expected to grow visibly in the medium term.

The sales cycles for new sales of Efecte's solutions are typically from four months to over a year, so relatively long. Mapping of customer needs usually requires 4 to 6 meetings and replacing a previous generation solution, which explains the long sales cycle. Typically, the customer first adopts Efecte's solution in one area (often ITSM) and later expands the use of Efecte's solutions to other areas (e.g. HR). Thus, the net sales from customer relationships grow over time. Efecte also has a long-term services business relationship with some customers, where Efecte's consultants develop the customer's Efecte platform further.

Typically, the duration of the contract term for a new customer is three years and the value is around EUR 100,000 to 150,000 of which some 0 to 30% is service income and 70 to 100% SaaS income depending on whether the service is

carried out by Efecte or its partner. The size of the SaaS fee is determined by the number of professional users managing the processes in ITSM and ESM solutions, and in the IAM solution based on the number of end user IDs. Typically, the number of professional users varies from a few dozen to several hundred. The number of users remains relatively static over time, so growth inside customer relationships usually comes from expanding use to other Efecte solutions. We typically estimate that a customer generates around EUR 30,000 in annual SaaS net sales.

License fees are typically charged annually in advance for the whole year, while majority of service net sales is generated at time of implementation. Therefore, Efecte's net sales focuses more on one-off services at the beginning of the customer relationship but as the relationship matures net sales becomes continuous (SaaS).

Thanks to its history, Efecte has strong internal product expertise

Development of Efecte's current cloud technology (SaaS) based solution started after 2010 when it became visible that customer organizations started to move to cloud-based solutions. Development of a new generation product did not, however, start from zero, as based on the previous one-off license based software generation, Efecte had strong technology know-how and customer understanding, especially in ITSM software solutions.

Efecte's R&D investments have been around 15 to 18% of net sales in recent years. R&D investments have decreased slightly in recent years relative to

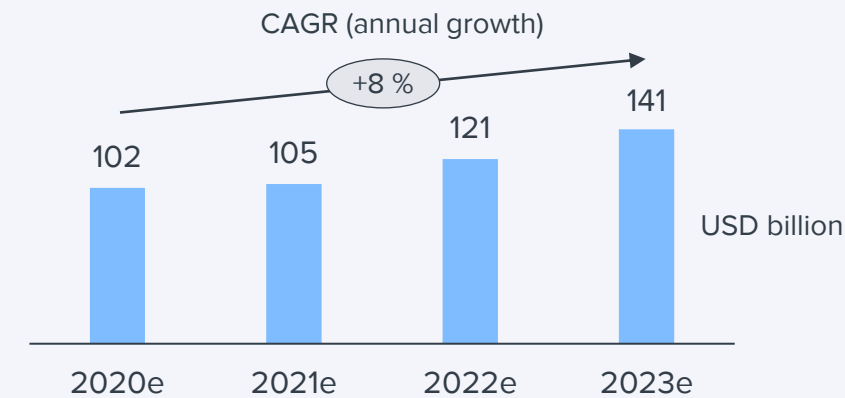
net sales as the SaaS product has reached a more mature stage. We believe, however, that Efecte must increase its R&D investments in the medium term in order to maintain the competitiveness of the product. Expansion into a new geographical market does not, however, require any considerable R&D investments from Efecte.

Efecte carries out the majority of product development with its own personnel, but the company uses some external services to acquire specialist expertise. Capitalization of product development costs has in recent years been at the same level as capitalization of R&D depreciation (20% of R&D costs), and we estimate that the annual level has been around EUR 0.3 to 0.4 million. This corresponds with some 2 to 3% of net sales. In expanding its solution, Efecte also utilizes technology partners, so the expansion of the solution is not only dependent on the company's own product development resources.

The company has no patents related to its products or technologies, which is typical for the industry. The product has no parts for which the company would have to pay royalties. Thus, the product is primarily protected by copyright and contracts so that outsiders cannot utilize Efecte's intangible rights.

Efecte has made its transformation to scalable SaaS model in the 2010s

The international market for SaaS software is expected to grow clearly in coming years



Source: Gartner

Difference between SaaS model and conventional (On-Premise¹) software delivery model

	SaaS	Conventional
Nature of income	Back-loaded, continuous, predictable	Front-loaded, non-recurring, fluctuating
Software delivery	Via web (as cloud service)	Locally ¹ installed
Manageable software versions	All clients have same version	Several versions for various customers

¹ On-Premise refers to a conventional software business model where the software is installed in the customer's own IT environment

Source: Inderes, Gartner

SaaS model offers clear benefits for all parties

Investor

- High growth potential as software moves to cloud
- Cash flow continuous and predictable
- Scalability enables high profitability
- Profitability and cash flow weak at growth stage compared to revenue due to front-loaded costs

➤ Higher valuation levels

Software supplier

- Recurring and predictable income and cash flow
- Low purchase threshold and faster sales cycles
- Deeper, longer and more valuable customer relationships
- More cost-efficient operative model
- Scalable cost structure
- Cost efficient and fast product development and updating cycle

➤ High value and scalability throughout customer lifespan

Customer

- Fast and more cost-efficient implementation
- Cost generation is stable and predictable
- Solution can be scaled based on needs
- No separate system maintenance and update costs
- Always newest updated software

➤ Low total cost of ownership (TCO)

Strategy 1/ 2

Efecte's growth strategy leans on the SaaS revolution of the software market and on internationalization

The core of Efecte's strategy is to utilize the considerable growth opportunities generated by the SaaS revolution of the software market in service management. Efecte describes its four strategic corner stones as follows:

1. We help service organizations to digitize and automate their work
2. We expand in Europe as a European alternative to global players
3. We stand out through the agility of our operations and solution, by offering a better experience and lower overall costs
4. We focus on helping our customers succeed and, thus, increase our customer portfolio and SaaS net sales

We feel that it makes sense for Efecte to profile itself primarily as an international growth company, as the company's business model involves clear benefits of scale, and due to the market transition in the industry, the company has attractive growth opportunities. With its strategy, Efecte tries to stand out from large US competitors as a European alternative, especially among medium-sized customers where the company's competitive position is the strongest. The company stands out from European competitors with its fully cloud-based product.

The strategic focus areas are logical in terms of Efecte's value creation

In our view, focusing on medium-sized, European customers is sensible for Efecte. In this customer segment, Efecte's competitiveness is strong, as decisions in medium-sized European companies are typically made at a local level and ability for global deliveries is not crucial. Smaller customer size, however, means smaller revenue per customer. In the SaaS model this is not critical in our view, as new customer relationships do not increase production, support and maintenance service costs much. Currently, Efecte's biggest competitors also seem to focus on larger customer relationships.

Efecte's software solution covers various business services extensively. This enables considerable growth potential in expanding old customer relationships to other solution areas. A considerable share of Efecte's historical growth has come from expansion sales to existing customers. In addition, expanding old customer relationships deepens the relationship and raises the threshold for changing service providers.

In terms of Efecte's value creation, the main strategic focal point is international growth since the growth potential on the Finnish market is limited. Internationalization was also a key factor behind Efecte's IPO, as a strong increase in international operations demands considerable growth investments in the beginning.

Focusing on increasing SaaS net sales instead of total net sales is also logical in our opinion, as SaaS net sales offers the best scaling possibilities in the long term and supports the continuance of business

operations. Previously, services have played a more prominent role in Efecte's strategy in terms of total net sales growth. Now, the role of services is to support SaaS net sales growth and enable continued product development feedback in the customer interface. Active work to reduce the relative service focus of the business model is emphasized in Efecte's new strategy. This steers Efecte to 1) make the implementation of its product lighter and more automated, and 2) utilize partners in carrying out the implementation. In the long term, these actions will generate crucial scalability and competitive advantage for Efecte's SaaS business.

Challenges in implementing the strategy but the direction now seems sustainable

Efecte has, in practice, carried out its SaaS growth strategy since 2017 when the company decided to carry out an IPO and start a more aggressive international expansion. As a result of the efficiency problems created by the slower than expected German new customer acquisition, the weakened net sales growth in Scandinavia, and the strong growth in the organization, the implementation of Efecte's strategy in 2018 was clearly weaker than expected in terms of overall growth and profitability.

Strategy 2/ 2

Efecte's net sales growth was five percentage points below the previous strategic objective and profitability fell to -19.5% in 2018 measured by EBIT %.

Efecte responded to the challenges at the end of 2018. Leadership team was renewed, the focus of growth was shifted more clearly to SaaS sales, and the increase in costs was slowed down. At the end of 2018, the company also started to gain a stronger footing in Germany. Efecte now seems to have found the recipe for successfully implementing its SaaS strategy. By Q3'20, proof of this is continued SaaS growth at over 20% throughout all 11 of its quarters as a listed company, of which in the last seven quarters relative operating profit has also improved.

SaaS growth and improving profitability as 2020-2023 targets

Efecte's key financial objective is now over 20% average annual organic SaaS net sales growth in 2020 to 2023. In line with the company's previous strategy, the objective was over 20% total net sales growth. Efecte still aims for improving profitability and the objective is to reach over 10% relative operating profit by 2023. Strong investments in internationalization and product development depress the operating profit for a few years to come. Even though our estimates indicate a loss-making result for 2020 (2020e -4% EBIT %), in 2021 Efecte already aims for a turnaround in profitability with a neutral operating profit.

We feel the financial objectives are realistic

We find Efecte's growth objective to be realistic as it is well in line with the predicted market growth and Efecte has several years of proof of maintaining the current growth level. In addition, investments in digital sales and marketing, as well as in the partner channel increase our confidence in successful growth.

International SaaS growth that is important for the objective has also been strong in recent years. Efecte's market position in Finland is already so strong and the SaaS revolution is at a relatively mature stage that it will be very difficult to grow domestic SaaS net sales by over 20% per year. Finland's share in Efecte's SaaS net sales is currently around 80% according to our estimate, so international SaaS growth must reach over 50% over the next few years. For example, in H1'20, Efecte's international business operations' SaaS net sales growth was +65% and overall SaaS net sales growth was +22%. Reaching the growth target also requires the churn rate to remain low (below 5%). Efecte's H1'20 growth from existing customers (incl. churn) was clearly positive, +12%.

Materialization of the profitability target (double-digit EBIT % by the end of 2023) is, according to our estimate, strongly tied to international operations and scalable growth of SaaS income. We believe, that Efecte's loss-making is currently explained in practice fully by the front-loaded investments in internationalization and measured by EBITDA, Finnish operations are already profitable.

Financing of strategy will soon switch from IPO funds to income financing

Implementation of Efecte's strategy requires considerable front-loaded investments especially in terms of German and Central European expansion, for which the operative cash flow from the company's Finnish operations would not have been sufficient in the next few years. In addition, it is characteristic for the SaaS business model that in the stage of accelerating/rapid growth, the company's cash flow turns clearly negative as SaaS income typically realize at a long lag of even several years after the sales and marketing investments.

Growth investments and the characteristic cash flow profile of the SaaS model left a gap in Efecte's 2018 to 2021 cash flows that had to be financed with the over EUR 5 million IPO carried out at the end of 2017. However, during 2021, the company's operating profit should turn positive again in line with the strategic objectives.

If more promising results materialize from the company's internationalization investments and the return/risk ratio of these investments proves to be attractive we consider it possible that Efecte will try to increase these investments. In this case, the company may seek additional capital to accelerate growth and it would be likely that long-term growth would be prioritized above profitability.

Summary of Efecte's strategy

Target market and Efecte's position

Global market of ITSM cloud software, 2019 **USD 4.4 billion**

Market growth in Europe, 2019 to 2023 **+18% CAGR**

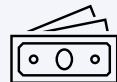
Drivers that support growth



Transition to cloud-based solutions



Security concerns and changes in legislation



Focusing on total costs

Mature and strong SaaS product for medium-sized European organizations

efecte

Strategic focus areas

1. Helping service organizations digitize and automate work
2. Expansion in Europe as a European alternative to global players
3. Standing out through flexibility of operations and solution, better experience and lower overall costs
4. Focusing on customer success as a source of growth in number of customers and SaaS net sales



Shift of financing in strategy from cash to income financing at the end of 2021



>20%

Annual organic growth of SaaS net sales, 2020 to 2023

>10%

Relative net sales in 2023

Markets and competitive landscape 1/ 2

Efecte's target markets are big and growing

Efecte's target markets are extremely big relative to the company's size and the market size will not, according to our view, limit the company's growth potential. For example, the research company MarketsAndMarkets estimates the value of the global cloud-based ITSM software market to have been USD 4.4 billion in 2019 of which some 25% from Europe. The company's estimate of the IAM market, in turn, is around USD 12.3 billion in 2020. According to estimates, the cloud-based ITSM market is expected to grow by an average of some 18% per year in Europe until the end of 2024 and the global IAM market by 15% per year.

When estimating the market size, it should be noted that next to the ITSM and IAM market Efecte also operates on the enterprise service software market, such as self-service, HR, financial and service management software. There is no exact data available on the size of these markets, but we estimate that they will increase Efecte's potential market to be clearly bigger than what was mentioned above.

We estimate that around one-quarter of the ITSM market consists of SMEs that are relevant to Efecte. For example, Allied Market Research estimates that this segment will be the fastest growing on the market with an annual growth of over 19%.

Market driven by transition to cloud software

A revolution towards cloud-based software has been ongoing on the software market for a while. However, the average penetration of cloud services in the EU countries is still only 28%. Thus, the ITSM and IAM markets are still in a strong

transition where demand for SaaS-based software is growing strongly and demand for locally installed software is subdued.

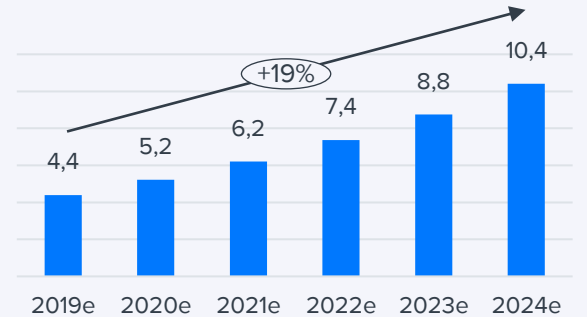
According to Efecte's estimate, the ITSM market is currently primarily driven by the replacement market, as in practice nearly every large and medium-sized organization is already using an older generation IT service management software. On the IAM market that is in an earlier development stage, customers are often delivered their first version of an identity and access management software.

Still a lot of room for growth in international markets

Of Efecte's current market areas (Finland, Sweden, Denmark, Germany), the biggest by far measured by value is Germany that is also Europe's largest ITSM market. Efecte's target market in Germany is, according to the company management's estimate, more than tenfold the size of the Finnish market.

In the Nordic countries, 50 to 70% of companies use cloud services, while in Central Europe the share is only around 20%. We expect stably growing use of cloud services in Central Europe, and especially in Germany, to offer room for long lasting growth for Efecte. On Efecte's current main market, in Finland, the growth outlook is, however, already more muted due to the highest usage rate of cloud services in Europe. We believe there is still growth potential in other Nordic countries that are slightly behind Finland.

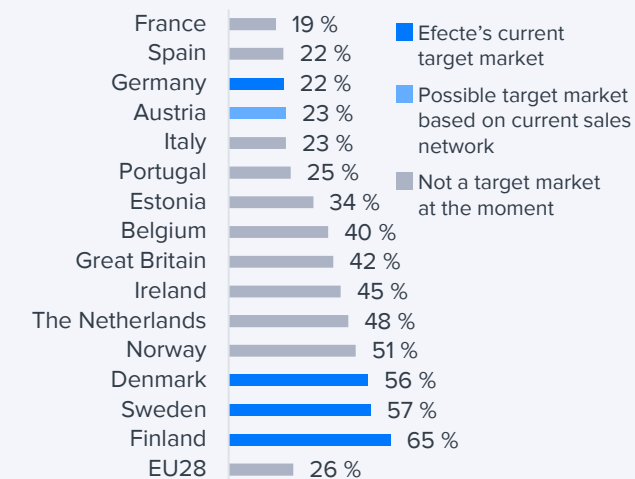
Growth of international Cloud ITSM market 2019e to 2024e, USD billion



Growth drivers on Efecte's target market



Penetration of cloud services in the EU countries in 2018, %



Markets and competitive landscape 2/2

Competitors are global and local players

On the big companies' ITSM market Efecte's competitors are mainly US players like ServiceNow, BMC, Freshworks and Ivanti. In addition, in medium-sized customers and the more limited solution and market areas, a number of other companies compete with Efecte, such as Serviceware, USU, Cherwell, Matrix42, and Atlassian, as well as numerous local software companies. On the IAM side, competition mainly consist of large US companies like Microsoft, Okta, Microfocus and Quest. Efecte is one of very few European companies on the IAM market. Of the competitors, ServiceNow is the biggest player by far on the global ITSM market and Efecte's strongest competitor in Finland. Through its partners, ServiceNow has, however, focused mainly on the biggest customers and the company's market position is not as strong among medium-sized customers.

Efecte's position is strong in its segment

Measured by net sales, Efecte is a small player globally both on the ITSM and IAM markets. On its home market in Finland, the company is, however, the market leader in its target group on the ITSM market and mainly competes against ServiceNow. Efecte's reported customers in Finland include, e.g. Musti Group, Valmet Automotive, Tikkurila and Mehiläinen.

We also believe Efecte is relatively well-known in other Nordic countries, but the company's market share is low as a whole. In Central Europe (Germany), Efecte and its brand is only now building recognition. Industry analysts have, however, noted Efecte among the industry leaders also in Germany,

so despite the small size, Efecte has gained a footing on the market. Efecte's strong international growth (H1'20: +65%) strengthens this view. In Germany, Efecte has especially local and regional competitors like USU, ServiceWare and Matrix42. Abroad, Efecte's reported customers include, e.g. Hotelplan Group, Bechtle Hamburg and the Church of Sweden.

Efecte's strengths are the product, customer experience, cost level and flexibility

In the 2010s, Efecte has made a successful shift on the ITSM market from locally installed software to a SaaS model, which has been very difficult for many of its competitors. SaaS companies like Efecte and ServiceNow get a competitive advantage in this situation. Efecte's software's features and scope are extensive and it can be flexibly used on all terminals and to manage nearly any service. However, in terms of scope, Efecte's product cannot beat global players.

Efecte focuses on the customer experience, a concrete example of this being the management's habit to personally call customers if there are any problems with customer satisfaction. In addition, customer success is separated from sales.

According to Efecte, total costs of owning its software solution are clearly lower than for its biggest competitors, due especially to implementation and configuration costs. For example, ServiceNow's total costs are, to our understanding, clearly higher than Efecte's.

We also consider the flexible delivery model to be a competitive advantage for Efecte. Efecte can deliver its services both through a public and private cloud

in Europe. In particular the demands of European customers are also considered in support services and product development.

Efecte's competitive disadvantages are mainly linked to its smaller size compared to its competitors

We believe Efecte's key competitive disadvantage to be its relatively low intentional recognition due to its small size, clearly lower resources than among the bigger competitors and competitiveness especially among the biggest customers.

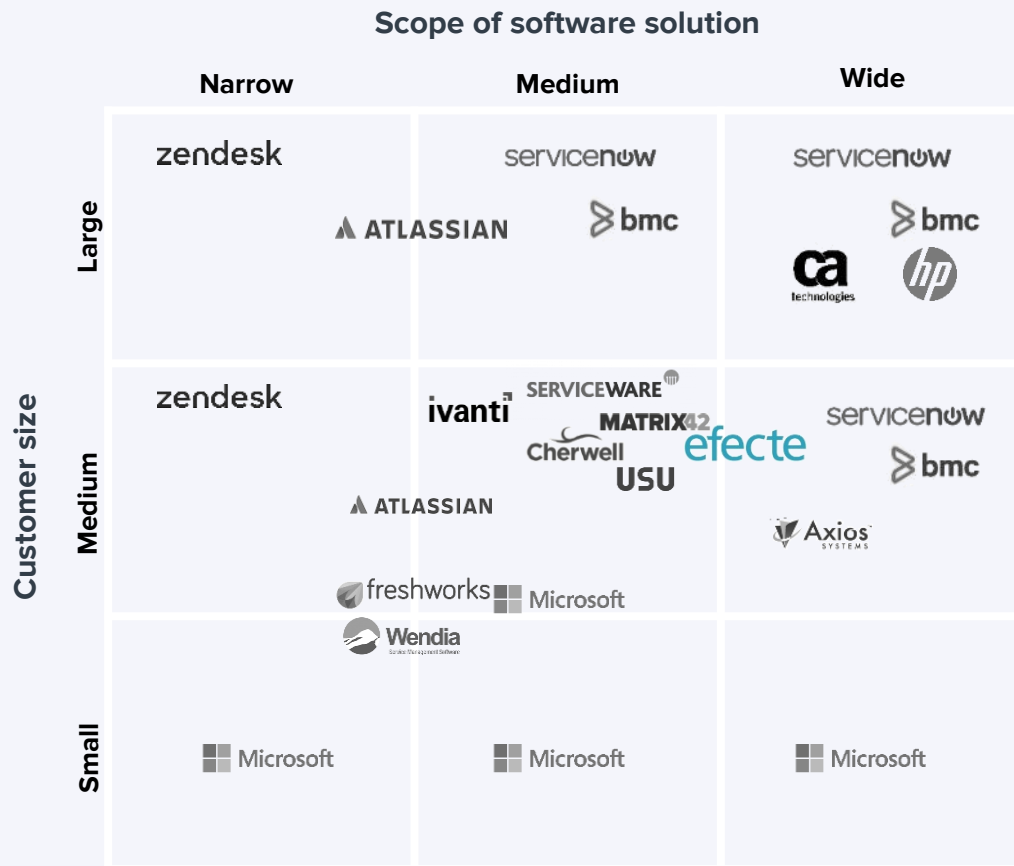
Weak international recognition slows down development of an international distribution channel. A strong and extensive sales network is important in the industry especially as customers' threshold to switch software is high, and, thus, the first company that manages to create a customer relationship usually gains a sustainable benefit in the market share. For example, in the bids that Efecte has lost in Germany the reasons have often been tied to a less-known brand than the competitor and issues related to existing customer relationships.

Due to the volume of smaller operations Efecte is also not able to invest similar sums in product development and sales and marketing as larger competitors, which can, in the long term, lead to weakening relative competitiveness and market shares of its products.

Efecte tries to minimize its competitive disadvantages by focusing on customer segments that are not in focus for the largest competitors and that value locality when selecting software solutions.

Efecte's competitive field

Efecte's competitive field on ITSM market



Efecte's competitive factors

- + SaaS model based, mature and versatile product
- + Customer experience
- + Low total costs for the customer
- + Flexible delivery models
- Low recognition outside Finland
- Lower R&D, sales and marketing resources than among larger competitors
- Weaker competitiveness and delivery ability among larger and global customers

Financial position

Earnings development 2013 to 2019

Efecte's net sales has grown stably since moving to a SaaS operating model in 2013. Net sales grew from EUR 4.4 million in 2012 to EUR 13.8 million by 2019 with an average growth percentage of around 19%. The strong growth was driven by strong growth in SaaS income (CAGR 2013 to 2019 51%) and increased service sales from the number of implementations (CAGR 2013 to 2019 41%). Total net sales growth was, however, depressed by a drop in net sales from decreasing one-off licenses in accordance with the strategy, as well as related support and maintenance sales. Examined geographically, a majority of Efecte's growth was generated in Finland in 2013 to 2019. In 2019, the share of international sales in net sales was around 19%.

In 2013 to 2019, the company's profitability has fluctuated heavily as the operating result varied between -19% and +2% and EBITDA between -16% and +6%. The fluctuation in profitability has mainly stemmed from the heavy growth investments made in 2017 to 2018 that increased costs clearly faster than net sales.

Cost structure

Efecte sells and produces its services primarily through its own personnel, so the company's materials and services cost item has been relatively low in recent years, around 10% of net sales.

The majority of Efecte's cost structure (2019: 64% of costs) consists of personnel costs. In Q3'20, in all 38% of personnel were service and training personnel and 19% sales personnel. Product

personnel amounts to 17% (incl. R&D), 16% support and cloud capacity maintenance personnel and 10% administrative personnel. In 2019, personnel costs amounted to EUR 9.7 million or some 70% of net sales. The number of personnel grew heavily in 2017 to 2018 especially due to an expansion in international operations (12/2016: 61 persons, 12/2018: 104 persons). The growth has curbed as Efecte has improved the scalability of its operations since then (Q3'20: 100 persons). We expect Efecte to increase especially the resourcing of product development in line with net sales growth to maintain competitiveness in the long term.

Efecte's second largest cost item is other operating costs (2019: 26% of costs and 28% of net sales). In recent years, other operating costs have been raised especially by costs related to the IPO and administrative costs, an increase in personnel, as well as increased travel costs and marketing investments. We believe the quest for scalability through digital sales and marketing increases the share of these costs. We, however, believe that this investment will be visible as slower growth in sales personnel as sales becomes more efficient.

Efecte's depreciation consist mainly of depreciation of product development costs capitalized in previous years. Depreciation amounted to EUR 0.4 million in 2019, or some 3% of net sales.

Balance sheet and financial position

Efecte's balance sheet structure is very simple and light. At the end of H1'20, the balance sheet total was some EUR 8.4 million. Balance sheet assets consist mainly of receivables (EUR 2.8 million) and cash (EUR 4.2 million). The balance sheet contains

EUR 1.4 million in intangible assets generated mainly from capitalized product development costs. In liabilities, shareholders' equity consists primarily of retained loss and an invested unrestricted equity fund. As a sum of these, shareholders' equity was EUR 1.6 million. At the end of H1'20, Efecte was debt-free and it has no interest-bearing debt. Due to considerable advance payments, accounts payable and deferred liabilities, Efecte's interest-free liabilities stood at EUR 6.8 million resulting in some EUR 4.0 million negative working capital. Efecte's equity ratio at the end of H1'20 was 33% and gearing -266%.

Cash flows

Historically, Efecte's cash flow development has been stronger than its earnings development, which is explained by the advance payments enabled by the company's business model. Efecte's customers typically pay SaaS license fees annually at the beginning of the contract period and maintenance income, as well as sales income from one-off licenses are also front-loaded. For example, in 2019, Efecte's net cash decreased by some 19% from the comparison period to EUR 3.4 million (2018: EUR 4.2 million) even though the company's EBITDA was some EUR 1 million in red.

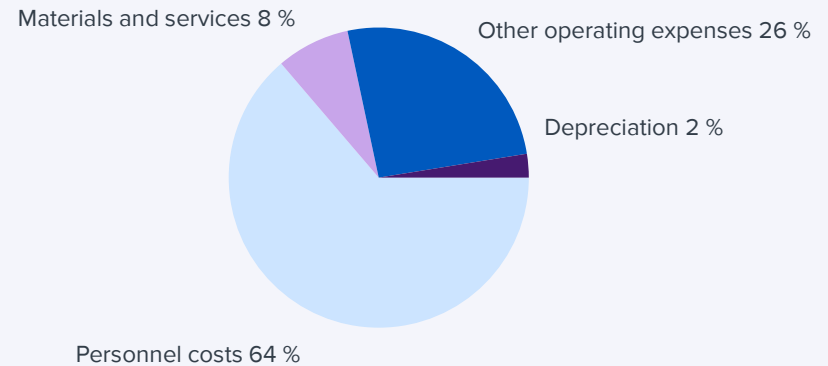
Thanks to strong operational cash flow, Efecte's growth finances itself to some extent and despite considerable growth investments the company's net cash should suffice until 2022 when the operating result and cash flow should turn positive.

Financial position

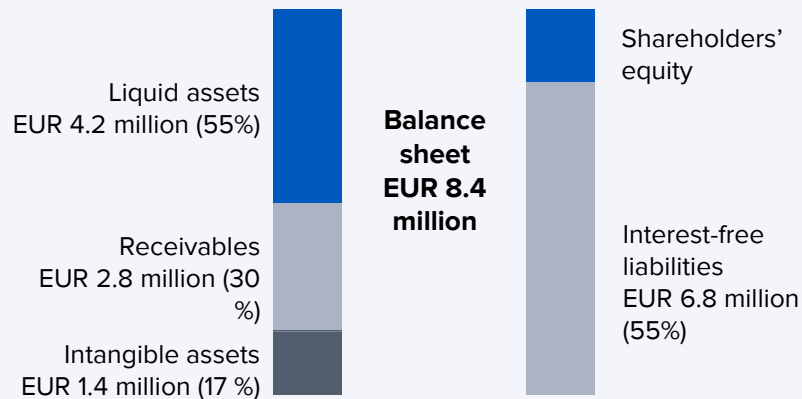
Revenue (EUR million) and EBIT %



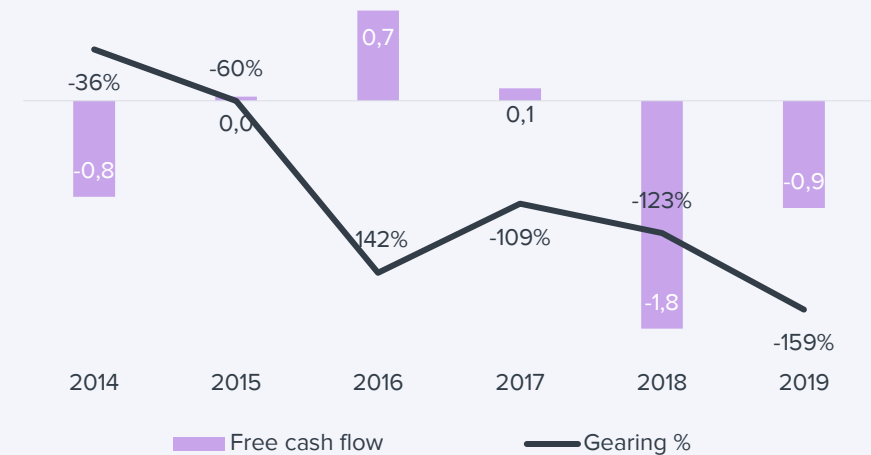
Cost structure 2019



Balance sheet structure, H2'2020



Free cash flow and gearing



Estimates 1/2

SaaS business model is the basis for our net sales estimates

Efecte's strategy focuses on SaaS business. We estimate Efecte's net sales primarily with two core net sales items, **SaaS net sales** and **Services net sales**. We except the net sales item that is left outside the strategy, Support and maintenance income (H1'2020: 7% of net sales) to tail off towards zero in coming years. This is primarily driven by customers operating under the old contract model moving to SaaS contracts.

We estimate SaaS net sales development through annual SaaS net sales growth (ARR). We reflect SaaS ARR growth to the number of sales personnel and seller-specific ARR growth, both of which we expect will grow. SaaS net sales is recurring by nature and, thus, the risks of the estimates are mainly related to the slope of the growth.

We expect that the growth of the historically significant Service net sales to slow down considerably from previous years. This is based on our expectation of Efecte's ability to make software implementation easier and successes in increasing the role of partners.

In our model, Efecte's profitability and earnings growth are determined especially by the development of fixed costs relative to net sales. Efecte's largest cost item by far is personnel costs (2019: 64% of costs), which we estimate through the number of personnel and unit costs. We reflect the number of personnel to the distribution of personnel by function. In our estimates, we also consider personnel efficiency figures relative to net sales and SaaS growth, which typically grow for

SaaS companies in the scalable growth stage.

Visibility into Efecte's net sale levels is good in the short term as the company's net sales mainly consists of easily predictable, recurring income. It is, however, more challenging to model the growth rate for net sales because it is highly dependent on the growth investments carried out by the company, timing of deals and how sales efficiency develops. Our view is that strong demand growth in the industry, the company's historical proof of growth and progress of international expansion do, however, provide good basis for continued strong growth in SaaS net sales over the next couple of years.

We lean on Efecte's objectives in our short-term estimates

Efecte's SaaS growth has continued at above 20% throughout all 11 of its quarters as a listed company and in the last seven quarters relative operating profit has also improved as targeted. Thus, Efecte's objectives for the strategy period 2020 to 2023 (SaaS growth >20 %, 2023 EBIT-% >10 %) seem realistic.

Efecte's guidance for 2020 is SaaS net sales growth of 20 to 25% and improved profitability from the comparison period. Our 24% estimate for SaaS net sales growth in 2020 is in line with the guidance. As a whole, we estimate that Efecte's net sales will grow by 6% to EUR 14.6 million and EBIT will improve to -4% (2019: -10%). Total net sales is in our estimate weakened by Service net sales that we expect to drop by 8%.

For 2020 to 2023 we estimate that Efecte's SaaS

net sales will grow by an average of 23% per year and total net sales by 12% per year. We expect Efecte's EBIT to rise from -4% in 2020 to 10% in 2023. We expect the growth (net sales y-o-y) and profitability (EBIT) sum ("Rule of 40") to rise to 27% in 2023 (2020: 2%). We estimate that Efecte's cash at hand (H1'20: EUR 4.2 million) has a good buffer to carry through the loss-making period caused by growth investments that will continue until 2021.

Estimates 2/2

Balancing between growth and profitability is reflected in long-term estimates

Until 2023, Efecte is driven by the profitability objective of its strategy but after that there is more leeway in terms of profitability. The essential question is how the investments in scalable growth through the partner program and digital sales and marketing succeed. If Efecte builds a strong and scalable base for larger sales efforts, the company can create more shareholder value in coming years with stronger growth and weaker profitability. Thus, it is more relevant to examine the combination of growth and profitability in our long-term estimate than a single component. However, our long-term estimate is built assuming that Efecte focuses on profitability towards the end of the estimate period.

We estimate the sum of Efecte's growth and profitability ("Rule of 40") to be between 27 and 33% in 2024 to 2030. We expect the peak of this sum to occur in 2026 and then to decrease as net sales growth slows down. In view of the market, Efecte could grow more strongly also in future but we feel our expectation of increased competition in the longer term speaks for caution in estimates.

We estimate 8 to 16% slowing net sales growth for Efecte for 2024 to 2028. Our net sales terminal growth in 2031 is 2.5%. The growth driver is SaaS net sales growth, which we believe will amount to 17 to 21% in 2024 to 2026. In terms of profitability, we expect Efecte's relative operating profit to gradually rise from 13% to over 20% in 2024 to 2028. We estimate that relative operating profit will remain at above 20% in the long term.

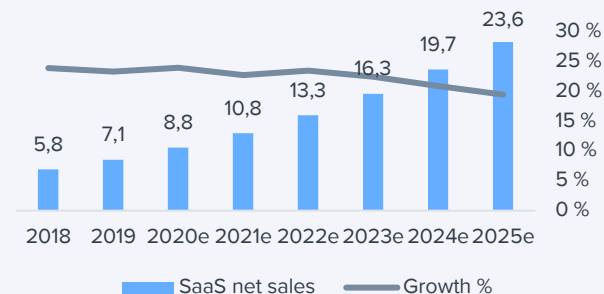
We take into account the dilution of option programs

The company has several option programs (2011, 2015, 2018) to motivate key personnel. These entitle to subscribe to a total of max. 0.94 million shares (of which some 0.48 million shares have been subscribed to 6/2020) at a subscription price of around EUR 0.58 to 5.75 if the option program's terms are met. The option programs are presented in full on page 34 of this report.

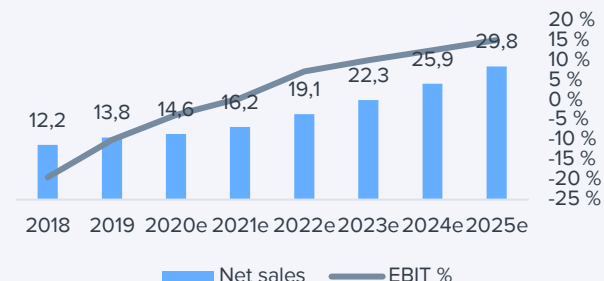
The subscription prices of Efecte's options are clearly below the current share price (EUR 10.0 per share). We have considered the full dilution effect of the option programs in our model and valuation in terms of number of shares as far as the options are vested.

Based on our current estimate, subscriptions of valid option programs will raise Efecte's number of shares from the situation at the end of H1'20 (5.97 million shares) by some 0.64 million shares by the end of H1'2024 (by some 11%). Compared to the situation in H1'20, we expect the equity to grow by the end of 2020 by some EUR 0.25 million and by a total of EUR 2.5 million by the end of 2024.

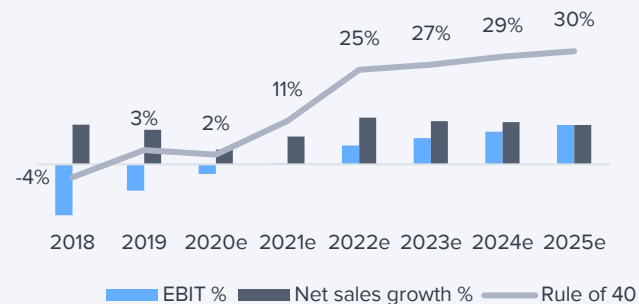
SaaS net sales and growth %



Revenue and EBIT %



Rule of 40 (Revenue growth % + EBIT %)



Income statement

Income statement	H1'18	H2'18	2018	H1'19	H2'19	2019	H1'20	H2'20e	2020e	2021e	2022e	2023e
Revenue	6,0	6,2	12,2	6,9	7,0	13,8	7,4	7,2	14,6	16,2	19,1	22,3
SaaS	2,7	3,0	5,8	3,4	3,7	7,1	4,2	4,6	8,8	10,8	13,3	16,3
Licences	0,3	0,2	0,5	0,1	0,0	0,2	0,0	0,0	0,0	0,0	0,0	0,0
Support and maintenance	0,6	0,6	1,3	0,6	0,6	1,3	0,5	0,5	0,9	0,6	0,5	0,3
Services	2,3	2,4	4,7	2,7	2,6	5,3	2,7	2,2	4,8	4,8	5,3	5,6
EBITDA	-1,1	-0,9	-2,0	-0,8	-0,2	-1,0	-0,4	0,3	-0,1	0,5	1,9	2,8
Depreciation	-0,2	-0,2	-0,4	-0,2	-0,2	-0,4	-0,2	-0,2	-0,5	-0,5	-0,5	-0,5
EBIT (excl. NRI)	-1,2	-0,9	-2,1	-1,0	-0,4	-1,4	-0,6	0,1	-0,5	0,1	1,4	2,2
EBIT	-1,2	-1,1	-2,4	-1,0	-0,4	-1,4	-0,6	0,0	-0,5	0,1	1,4	2,2
Net financial items	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
PTP	-1,3	-1,2	-2,4	-1,0	-0,4	-1,4	-0,6	0,0	-0,6	0,1	1,4	2,2
Taxes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-0,1
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net earnings	-1,3	-1,2	-2,4	-1,0	-0,4	-1,4	-0,6	0,0	-0,6	0,1	1,4	2,1
EPS (adj.)	-0,21	-0,17	-0,37	-0,16	-0,07	-0,23	-0,10	0,01	-0,09	0,01	0,22	0,33
EPS (rep.)	-0,22	-0,20	-0,42	-0,16	-0,07	-0,23	-0,10	0,01	-0,10	0,01	0,22	0,33
Key figures	H1'18	H2'18	2018	H1'19	H2'19	2019	H1'20	H2'20e	2020e	2021e	2022e	2023e
Revenue growth-%	173,1 %	154,3 %	15,2 %	15,1 %	11,4 %	13,2 %	7,4 %	4,0 %	6 %	11 %	18 %	17 %
EBITDA-%	-17,9 %	-14,6 %	-16,3 %	-11,4 %	-3,3 %	-7,3 %	-4,7 %	3,7 %	-0,6 %	3,3 %	9,8 %	12,5 %
Adjusted EBIT-%	-19,8 %	-15,2 %	-17,4 %	-14,2 %	-5,8 %	-10,0 %	-7,8 %	0,7 %	-3,6 %	0,5 %	7,2 %	10,1 %
Net earnings-%	-21,0 %	-18,6 %	-19,8 %	-13,9 %	-6,0 %	-9,9 %	-8,3 %	0,6 %	-3,9 %	0,4 %	7,2 %	9,6 %

Source: Inderes

Investment profile

Efecte is almost a purebred growth stock

Through the positive market trends, international expansion and the company's development stage, Efecte as an investment object, is profiled almost as a purebred growth stock, whose value creation is in the current development stage driven mainly by the growth rate of SaaS net sales instead of the earnings level. The uncertainty of the growth rate and still ongoing turnaround in profitability raise the risk level of Efecte's investment profile to higher than usual. The risk profile is, however, lowered by Efecte's strong display of improving profitability and SaaS growth. Risks are also lowered by the predictability offered by continuous income, as well as ready and competitive software solution, whose commercial performance has already been proven on the Finnish market and through several international reference customers.

Positive value drivers

Considerable market potential and strongly growing demand. Growth on Efecte's key target markets is expected to be strong in coming years (15 to 20% per year) driven by several trends that support demand and the value of the key ITSM market was an estimated USD 4.4 billion in 2019. For example, on the important German market, the penetration of cloud services is still low (around 20%) and offers considerable room for Efecte's growth.

Proven SaaS-based business model that relies on scalability and continued returns. Efecte's SaaS model based business is highly scalable and there is clear upside potential in the company's profitability in the long term. Income that relay on

continuous agreements (around 65% of total net sales) lower the risks related to the continuity of business operations.

Ready, scalable technology and clear competitive advantage in medium-sized companies.

Efecte has developed ITSM software for some 20 years and during the past 10 years it has converted its software to a SaaS model. Efecte's product has been proven on the markets and this is one of the company's competitive advantages. In addition, Efecte's customer orientation, flexibility and attractive cost level makes it competitive in its segment.

International expansion and additional sales to existing customers. Efecte's operations are relatively small in Central Europe that is lagging the Nordic countries in the cloud revolution. Progress of the partner program can open new growth markets for Efecte, especially in Central Europe, if the company can find partners outside the existing target markets. Customers typically start using the solution by adopting one part of it and expand the usage over time. This enables additional sales to existing customers by expanding to new solutions.

Negative value drivers and risks

Failure in growth investments and international expansion. Efecte's value creation leans heavily on the growth strategy being successful, which creates preconditions for scaling the business. Efecte must acquire a considerable number of new customers outside Finland in coming years in order to reach its growth targets and reach sufficient scale and market position.

Changes in the competitive field and position.

From the customer's viewpoint, there are several options for Efecte's solution even though the solution is currently, according to our view, highly competitive among medium-sized customers. Efecte is small compared to its largest competitors which creates some limits for the company when competing for the largest customers and in its investment ability. In addition, the largest competitors may in future expand more aggressively to Efecte's target markets.

Technological changes and security risks. For example, AI and robotic process automation will inevitably change enterprise services over the next 10 years, which can increase Efecte's R&D investment needs considerably from the existing level. In addition, cloud services involve clear risks related to malicious hacking and system performance.

Growth strategy will depress cash flow to red and requires a successful result turnaround. Efecte has, however, progressed well in its result turnaround, so this risk has already clearly diminished.

Valuation is sensitive to changes in growth expectations and valuation levels of the sector.

The value development of Efecte's share is crucially affected by how the markets price the expected growth of SaaS companies. Changes in the pricing of SaaS companies' growth and in the slope of Efecte's growth can fluctuate Efecte's valuation level clearly in the future.

Investment profile

1.

Large market that grows strongly driven by the cloud transition

2.

SaaS business model offers scalable growth and security from recurring income

3.

There is room next to the global players for European players like Efecte in the medium-sized company segment

4.

Efecte's competitive advantages are a strong product, customer experience, attractive cost level and flexibility

5.

Share earnings rely heavily on the expectation of continued scalable growth

Potential



- Considerable market potential and strongly growing demand
- Proven SaaS-based business model that strongly relies on scalability and continued returns
- Ready, scalable technology and clear competitive advantage in medium-sized companies
- International expansion and additional sales to existing customers

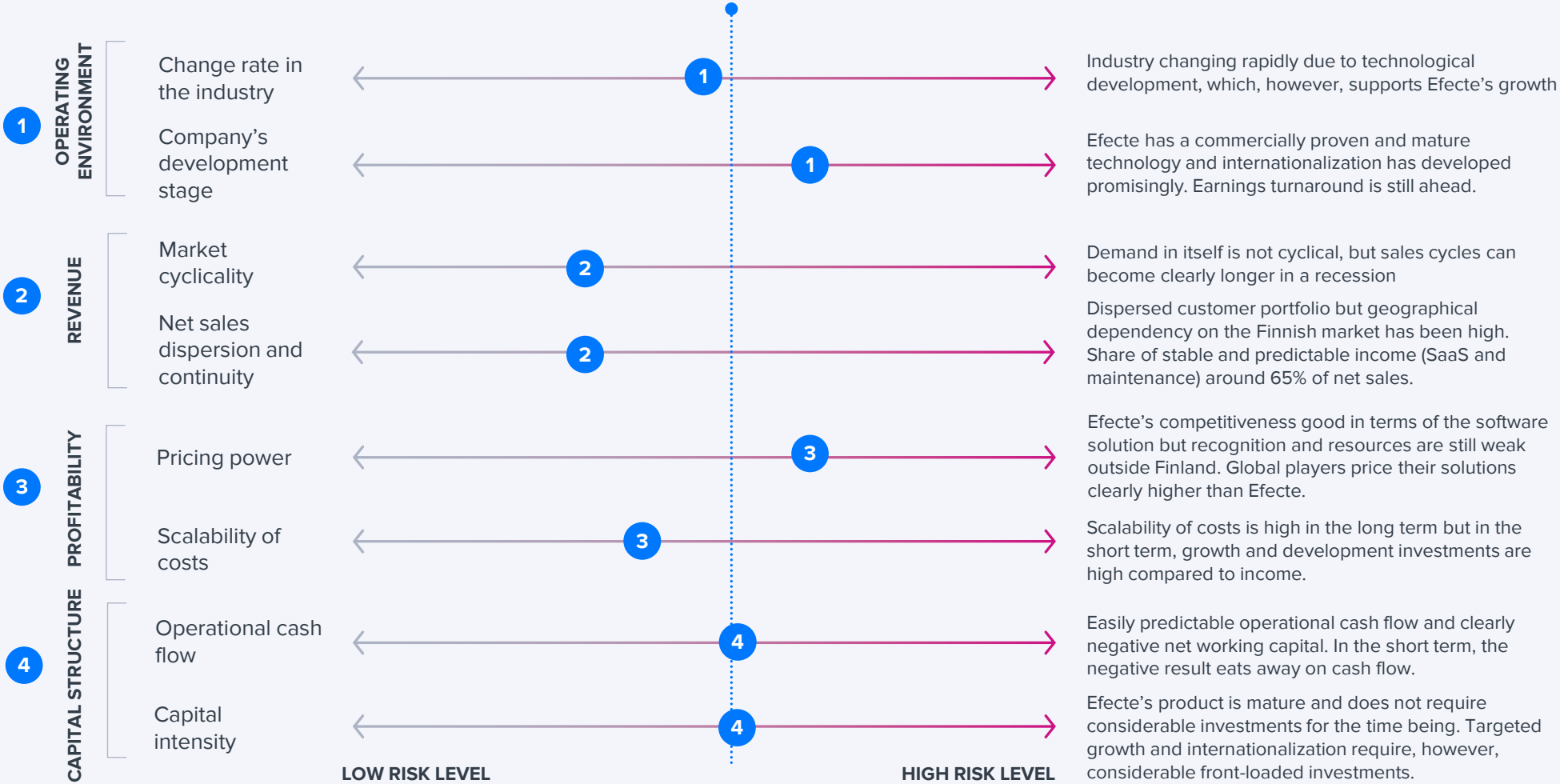
Risks



- Failure in growth investments and international expansion
- Changes in the competitive field and position
- Technological changes and security risks
- Growth strategy will depress cash flow to red and requires a successful result turnaround
- Valuation is sensitive to changes in growth expectations and valuation levels of the sector

Risk profile of Efecte's business model

Assessment of Efecte's overall business risk



Source: Inderes

Valuation 1/2

Valuation is driven by growth and profitability development

Efecte's valuation is challenging due to the company's development stage and the earnings logic of the SaaS business model. Therefore, a lion's share of the value is based on growth expectations and increased profitability. In connection with the IPO, Efecte decided to make front-loaded investments into growth. Therefore, the result will not support Efecte's valuation until near the end of the strategy period in 2023. This is, however, typical for a SaaS company.

In determining Efecte's valuation we lean more on a combination of profitability and growth ("Rule of 40"). In the method widely used in the software industry you sum up the net sales growth percentage and relative profitability (EBITDA, operating profit, result or free cash flow depending on the user). A sum exceeding 40% is considered an indicator of "good quality" business operations.

The "Rule of 40" indicator works well for a SaaS company as it takes into consideration the company's balancing between growth investments and profitability. We use the "Rule of 40" indicator calculated with relative operating profit to determine Efecte's valuation level.

We view Efecte's net sales as a whole in the valuation. The effect of the drop in support and maintenance income of the old business model on Efecte's net sales growth is highly moderate in coming years. Even though a considerable share of Efecte's net sales is service net sales (H1/2020 36% of net sales), we feel it justified to look at the whole. For example, the SaaS companies in the

peer group also have service business at varying weights, which is also reflected in the profitability and growth of these companies.

Key multiples are reasonable in general

Earnings based multiples support Efecte's valuation only starting in the medium term. At the end of the strategy period in 2023, we expect the company's EBIT margin to reach 10%. At that time, Efecte's P/E will be 30x and the corresponding EV/EBIT 26x. The multiples are quite high but considering the company's good growth outlook even at that time more reasonable.

Efecte's EV/Net sales multiples are 4.0x and 3.7x for 2020 and 2021 respectively. These multiples are at an absolute high level but justifiable with the long-term strong growth outlooks of the industry and the company, the scalable business model and the visibility from recurring income.

We have picked primarily Nordic software companies to the peer group that reflect value through Efecte's total net sales, as these reflect the growth expectations of European software companies well. These companies are also clearly closer to Efecte in terms of scale and risk profile than international SaaS peers. It is hard to find a direct peer for Efecte, but we have added two German listed companies (USU Software and Serviceware) to the peer group.

Measured by EV/Net sales multiples Efecte is in 2020 to 2021 valued some 50% below the peer group median 8.7x to 6.8x. The 2020 EV/Net sales multiples of Efecte's German industry peers at 2.5x and 1.5x are, however, below Efecte's multiple, which is justified considering the peers' ongoing

SaaS transformation. Efecte's combination of growth and profitability (2021e: 11%) is 70% below the median of the peers (2021e: 37%) which justifies the discount. The discount is, however, high considering our expectation of Efecte's increasing combination of growth and profitability (2022: 25%). In other words, the current valuation level offers a chance for investors who believe in Efecte's success to hop on board the growth saga at a valuation level below its potential.

Our DCF value indicates an upside

The debt-free value (EV) of our DCF model for Efecte is EUR 65 million and the equity value is EUR 68 million or EUR 11.1 per share. Our perpetual assumption is that the operating profit % is 23.0% and growth 2.5%. The weight of the perpetual assumption (terminal) is 57% of the debt-free value.

The cost of capital (WACC) in the DCF model is 10.2%, which reflects the company's small size and the risk still associated with the growth strategy being successful. Efecte's growth strategy has, however, progressed as planned and, thus, as this development continues, the risk profile gradually falls.

The cost of equity is in line with the levels we use in valuing other small Finnish SaaS peers (Heeros 12%, LeadDesk 10%).

Valuation 2/2

Longer term scenarios support valuation

We use estimate-based scenarios with which we evaluate Efecte's valuation in 2025 to support our valuation. We compare the generated 2020 to 2025 annual return expectation to the risks the investor bears. With the new management, Efecte has reached its objectives, which improves our confidence in the scenarios.

In our basic scenario, Efecte's net sales grows to some EUR 30 million by 2025. The "Rule of 40" in this scenario is thus 33% for the next year, which indicates an EV/Net sales multiple of some 4x. Considering the growth outlook, our EV/EBIT estimate is around 18x. The annual return

expectation is an attractive 13% already in the basic scenario.

In the pessimistic scenario, Efecte's SaaS net sales growth weakens by 2025 to 4%, and, as a whole, net sales grows to some EUR 22 million. Due to the slowness of scalable growth the operating profit would also be a modest 8%. The "Rule of 40" in this scenario is thus only 12%, which indicates an EV/Net sales multiple of some 2x. Considering the weakened growth outlook, our EV/EBIT estimate is around 15x. In this scenario, the annual return expectation is 7% negative.

In the optimistic scenario, Efecte's measures to improve the scalability of growth are efficient and

SaaS growth climbs to 30% in the next couple of years. Total net sales would grow to some EUR 36 million by 2025. The "Rule of 40" in this scenario is around 51%, which indicates an EV/Net sales multiple of some 5x. Considering the stronger growth outlook, our EV/EBIT estimate is around 20x. The annual return expectation in this scenario is a highly attractive 25%.

In the return expectations indicated by the scenarios we have considered the risks related to the current valuation indicators. SaaS software companies are priced at historically high multiples globally. We believe, that in the longer term, it is justified to expect lower multiples to have a weakening effect on return expectations.

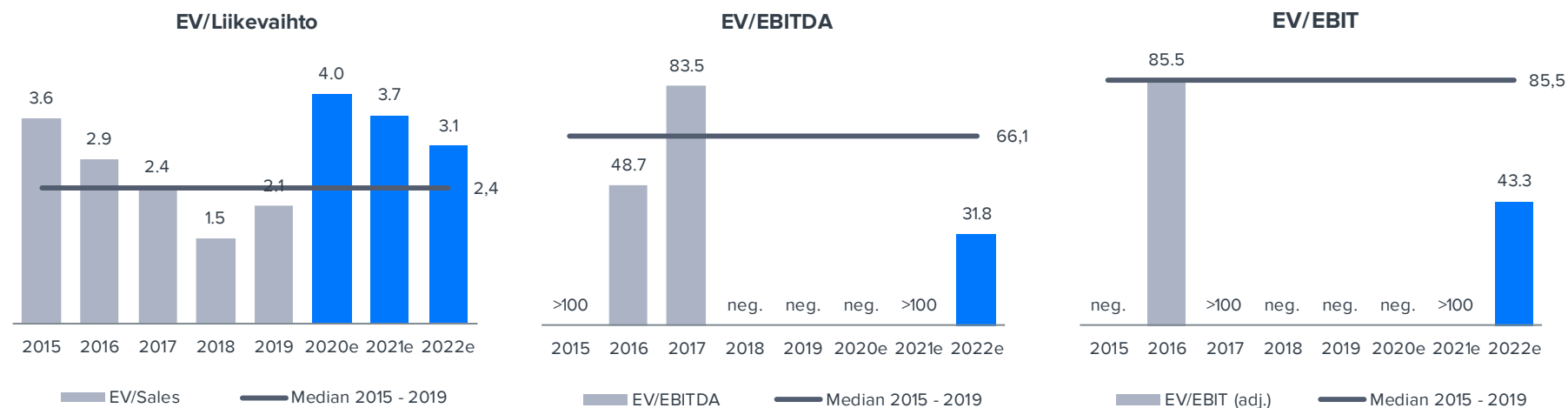
Scenario analysis of valuation

In 2025	Pessimistic	Current estimates	Optimistic
Variable net sales growth %	4%	14%	24%
Variable EBIT-%	8%	19%	26%
Variable net sales EUR million	22	30	36
X multiplier Sales	2	4	5
X multiplier EBIT	15	18	20
("Rule of 40")	12%	33%	51%
= EV (EV/Sales)	45	119	179
= EV (EV/EBIT)	27	101	188
Average (EV)	36	110	183
+Net cash+dividends	9	15	18
=Market value	45	125	202
Share price 2025 (incl. dividends)	6.7	18.9	30.5
Return	-33%	89%	205%
Annual return (5 years)	-7%	13%	25%

Valuation summary

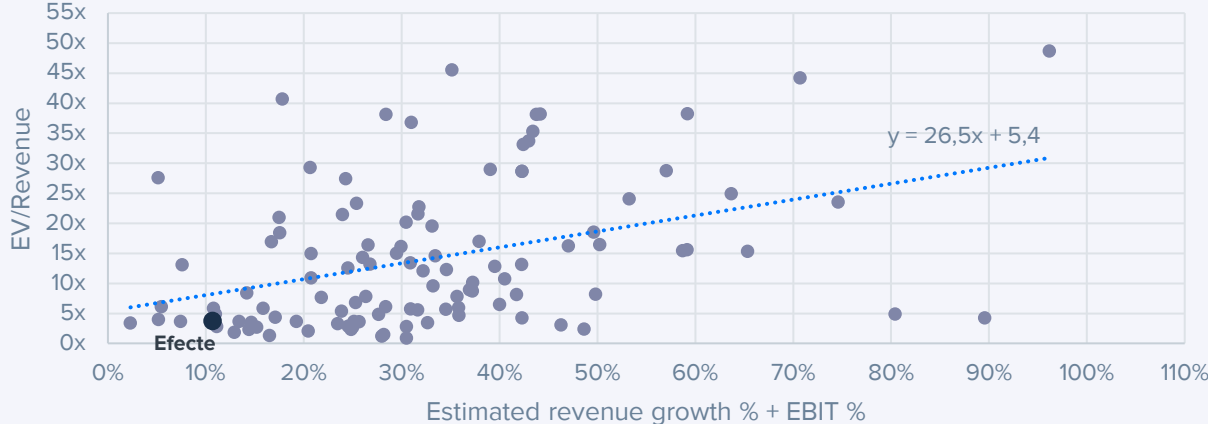
Valuation	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Share price	5,50	5,50	5,62	3,86	5,40	10,0	10,0	10,0	10,0
Number of shares, millions	4,57	4,57	5,60	5,81	5,88	6,16	6,16	6,33	6,47
Market cap	25	25	31	22	32	62	62	63	65
EV	25	24	25	18	29	59	59	60	58
P/E (adj.)	neg.	96,6	>100	neg.	neg.	neg.	>100	46,1	30,4
P/E	neg.	>100	neg.	neg.	neg.	neg.	>100	46,1	30,4
P/FCF	>100	35,1	>100	neg.	neg.	neg.	neg.	44,2	24,1
P/B	38,6	32,8	5,6	6,6	14,8	38,7	37,1	20,9	12,5
P/S	3,6	3,0	3,0	1,8	2,3	4,2	3,8	3,3	2,9
EV/Sales	3,6	2,9	2,4	1,5	2,1	4,0	3,7	3,1	2,6
EV/EBITDA	>100	48,7	83,5	neg.	neg.	neg.	>100	31,8	21,0
EV/EBIT (adj.)	neg.	85,5	>100	neg.	neg.	neg.	>100	43,3	26,0
Payout ratio (%)	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Dividend yield-%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %

Source: Inderes



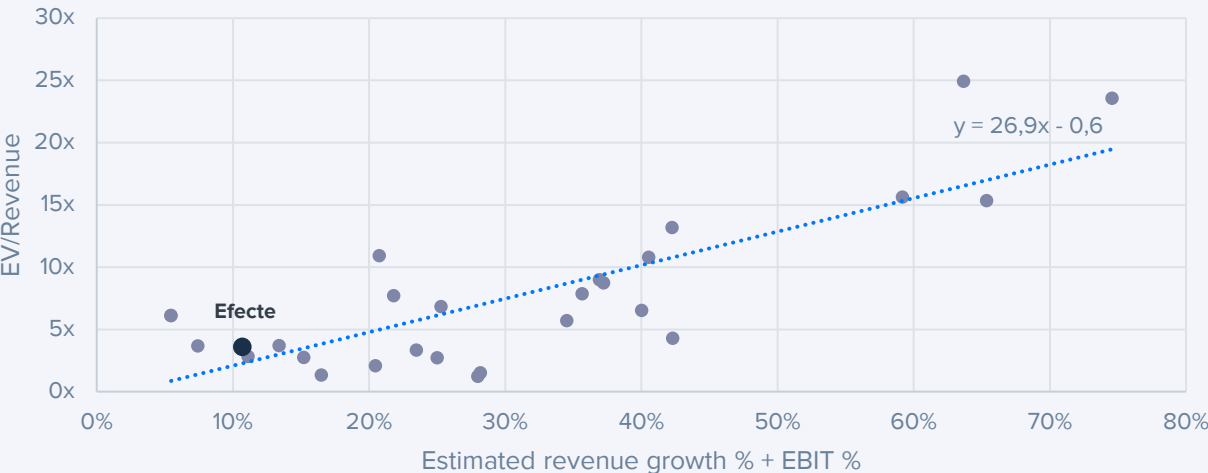
Peer group's net sales ratios relative to growth and profitability

Global SaaS peers' EV/Net sales valuation in 2021 relative to growth and profitability



- Valuation of the international SaaS peer group is historically high
- Especially North American companies deserve higher multiples than European players, e.g. due to a clearly larger domestic market
- Efecte's discount to its global peers is logical due to the company's small size, target market (European medium-sized companies) and development stage

European SaaS peers' EV/Net sales valuation in 2021 relative to growth and profitability



- The valuation of the European SaaS peer group is clearly more moderate than that of the international group
- The European peer group is closer to Efecte in terms of both the domestic and target markets
- Due to Efecte's development stage its combination of growth and profitability (2021e: 11%) is, in our view, only moving to a normalized level (2022e: 25%), which justifies a higher valuation indicator than among its peers.

Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		Lv:n kasvu-%		EBIT-%		Rule of 40	
Company		MEUR	MEUR	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	2021e	
24SevenOffice Scandinavia AB	35,3	205	197	402,8	100,7	134,3	69,5	11,5	9,0			28 %	3 %	9 %	37 %
Admicom Oyj	131,0	638	637	63,7	45,5	63,7	45,5	28,9	23,6	38 %	23 %	45 %	52 %	75 %	
Artificial Solutions International AB	16,2	70	88					12,2	7,7	42 %	59 %				
Basware Oyj	38,6	556	607	153,1	69,1	30,6	24,9	4,0	3,7	3 %	8 %	3 %	5 %	13 %	
Carasent ASA	28,0	139	141	107,2	65,3	55,6	42,9	21,1	15,6			35 %	20 %	24 %	59 %
FormPipe Software AB	27,3	140	145	27,5	23,4	14,2	12,9	3,6	3,3	3 %	9 %	13 %	14 %	23 %	
Fortnox AB	367,0	2101	2108	83,6	64,2	67,4	53,9	31,1	24,9	31 %	25 %	37 %	39 %	64 %	
F-Secure Oyj	4,0	628	642	26,7	29,9	17,4	18,5	2,9	2,8	0 %	6 %	11 %	9 %	15 %	
Heeros Oyj	6,2	27	26		25,6	12,8	12,8	2,8	2,8	1 %	7 %	3 %	9 %	16 %	
Leaddesk Oyj	25,0	115	112	111,9	111,9	55,9	28,0	8,0	4,3	24 %	24 %	5 %	9 %	33 %	
Lime Technologies AB (publ)	315,5	411	421	54,8	46,5	37,0	32,9	12,7	10,8	17 %	17 %	23 %	23 %	41 %	
Merrell Holding AS	9,9	281	282		76,9	176,5	32,6	8,6	6,5			32 %		8 %	40 %
Qt Group Oyj	50,40	1226	1227	87,7	68,2	75,0	60,7	16,2	13,2	34 %	23 %	19 %	19 %	42 %	
Safeture AB*	9,98	24	24					8,7	7,0	17 %	25 %				
Serviceware SE	13,65	143	116		74,6	34,7	21,8	1,5	1,3	12 %	14 %			2 %	17 %
Simcorp A/S	817,00	4375	4440	37,2	31,9	33,1	28,8	9,6	8,8	2 %	10 %	26 %	27 %	37 %	
Sinch AB (publ)	1110,00	6470	6396	121,2	63,3	80,5	47,8	8,5	4,9	55 %	73 %	7 %	8 %	80 %	
SSH Communications Security Oyj	1,28	48	41			41,2	20,6	3,4	2,7			25 %			
Talend SA	37,45	994	977					4,2	3,7	15 %	13 %				
Talenom Oyj	13,00	555	593	45,6	38,7	25,1	22,0	9,1	7,9	13 %	15 %	20 %	20 %	36 %	
TeamViewer AG	38,43	7845	8439	42,3	33,6	34,1	27,1	18,4	15,4	18 %	20 %	43 %	46 %	65 %	
USU Software AG	23,20	246	247	46,2	26,0	25,1	18,7	2,3	2,1	9 %	12 %	5 %	8 %	20 %	
Varonis Systems Inc	117,11	3158	3068		1355,1		457,6	13,1	10,9	11 %	20 %			1 %	21 %
Vitec Software Group AB (publ)	308,00	886	937	47,2	43,4	22,1	20,1	7,5	6,8	8 %	10 %	16 %	16 %	25 %	
Efecte (Inderes)	10,00	62	59	neg.	>100	neg.	110,7	4,0	3,7	6 %	11 %	-4 %	1 %	11 %	
Average				91,2	119,7	51,8	52,4	10,4	8,3	18 %	22 %	18 %	17 %	38 %	
Peer group median				59,3	54,9	35,8	28,0	8,7	6,8	16 %	21 %	16 %	12 %	37 %	
Diff-% to median								296 %	-54 %	-46 %					-70 %

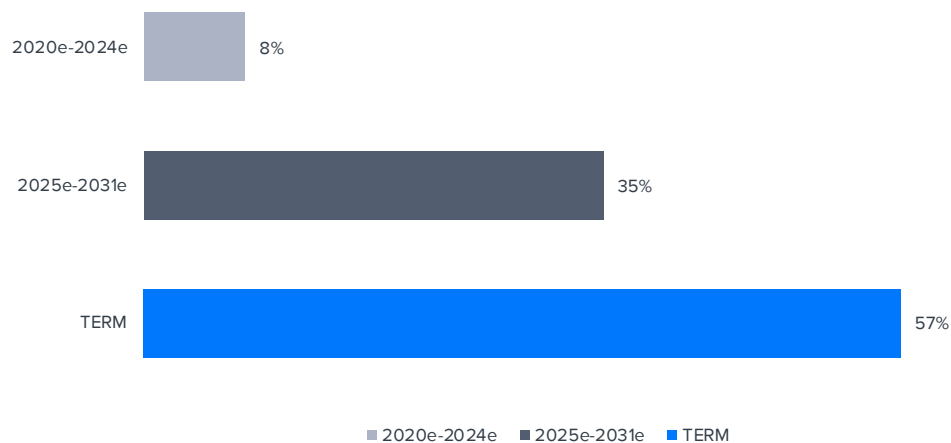
*Growth adjusted to organic

Source: Thomson Reuters / Inderes

DCF model

DCF model	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	-1,4	-0,5	0,1	1,4	2,2	3,2	4,5	6,4	8,0	9,3	10,0	10,6	10,8	
+ Depreciation	0,4	0,5	0,5	0,5	0,5	0,6	0,6	0,6	0,7	0,7	0,7	0,7	0,7	
- Paid taxes	0,1	0,0	-0,3	-0,1	-0,2	-0,3	-0,6	-1,0	-1,6	-2,3	-2,5	-2,6	-2,7	
- 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	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	0,0	0,0	
- Change in working capital	0,6	-0,1	0,1	0,3	0,8	0,8	1,0	0,8	0,6	0,6	0,5	0,5	0,2	
Operating cash flow	-0,3	-0,2	0,3	2,1	3,3	4,4	5,6	6,9	7,7	8,2	8,7	9,1	9,0	
+ 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	0,0	0,0	
- Gross CAPEX	-0,6	-0,5	-0,6	-0,6	-0,6	-0,6	-0,7	-0,7	-0,7	-0,7	-0,7	-0,7	-0,8	
Free operating cash flow	-1,0	-0,7	-0,3	1,4	2,7	3,7	5,0	6,2	7,0	7,5	8,0	8,4	8,3	
+/- Other	0,1	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	-0,9	-0,4	-0,3	1,4	2,7	3,7	5,0	6,2	7,0	7,5	8,0	8,4	8,3	
Discounted FCFF		-0,4	-0,3	1,2	2,0	2,5	3,0	3,4	3,5	3,4	3,3	3,1	2,8	37,3
Sum of FCFF present value		64,9	65,3	65,6	64,4	62,4	59,9	56,9	53,4	49,9	46,5	43,2	40,1	37,3
Enterprise value DCF		65												
- Interesting bearing debt		0,0												
+ Cash and cash equivalents		3,4												
-Minorities		0,0												
-Dividend/capital return		0,0												
Equity value DCF		68												
Equity value DCF per share		11,1												

Cash flow distribution



Wacc	
Tax-% (WACC)	25,0 %
Target debt ratio (D/(D+E))	0,0 %
Cost of debt	5,0 %
Equity Beta	1,10
Market risk premium	4,75 %
Liquidity premium	3,00 %
Risk free interest rate	2,0 %
Cost of equity	10,2 %
Weighted average cost of capital (WACC)	10,2 %

Source: Inderes

Balance sheet

Assets	2018	2019	2020e	2021e	2022e
Non-current assets	1,2	1,4	1,5	1,9	2,1
Goodwill	0,1	0,0	0,0	0,0	0,0
Intangible assets	1,0	1,2	1,4	1,6	1,7
Tangible assets	0,0	0,0	0,0	0,0	0,0
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	0,1	0,0	0,0	0,0
Deferred tax assets	0,1	0,0	0,0	0,3	0,4
Current assets	6,5	6,1	5,5	5,5	7,5
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	2,3	2,7	2,8	3,1	3,6
Cash and equivalents	4,2	3,4	2,7	2,4	3,8
Balance sheet total	7,6	7,5	6,9	7,4	9,6

Source: Inderes

Liabilities & equity	2018	2019	2020e	2021e	2022e
Equity	3,4	2,2	1,6	1,7	3,0
Share capital	0,1	0,1	0,1	0,1	0,1
Retained earnings	-7,2	-8,6	-9,2	-9,1	-7,8
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	10,6	10,7	10,7	10,7	10,7
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	0,0	0,0	0,0	0,0	0,0
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	0,0	0,0	0,0	0,0	0,0
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	4,3	5,3	5,3	5,7	6,5
Short term debt	0,0	0,0	0,0	0,0	0,0
Payables	3,5	4,5	4,8	5,4	6,5
Other current liabilities	0,8	0,8	0,5	0,3	0,0
Balance sheet total	7,7	7,5	6,9	7,4	9,6

Summary

Income statement	2017	2018	2019	2020e	2021e	Per share data	2017	2018	2019	2020e	2021e
Revenue	10,6	12,2	13,8	14,6	16,2	EPS (reported)	-0,15	-0,42	-0,23	-0,10	0,01
EBITDA	0,3	-2,0	-1,0	-0,1	0,5	EPS (adj.)	0,01	-0,37	-0,23	-0,09	0,01
EBIT	-0,1	-2,4	-1,4	-0,5	0,1	OCF / share	0,10	-0,28	-0,05	-0,03	0,05
PTP	-0,8	-2,4	-1,4	-0,6	0,1	FCF / share	0,01	-0,31	-0,14	-0,07	-0,05
Net Income	-0,8	-2,4	-1,4	-0,6	0,1	Book value / share	1,00	0,59	0,37	0,27	0,27
Extraordinary items	-0,2	-0,3	0,0	0,0	0,0	Dividend / share	0,00	0,00	0,00	0,00	0,00
Balance sheet	2017	2018	2019	2020e	2021e	Growth and profitability	2017	2018	2019	2020e	2021e
Balance sheet total	9,3	7,6	7,5	6,9	7,4	Revenue growth-%	28 %	15 %	13 %	6 %	11 %
Equity capital	5,6	3,4	2,2	1,6	1,7	EBITDA growth-%	-38 %	-754 %	-49 %	-91 %	-717 %
Goodwill	0,1	0,1	0,0	0,0	0,0	EBIT (adj.) growth-%	-85 %	-5300 %	-35 %	-62 %	-117 %
Net debt	-6,1	-4,2	-3,4	-2,7	-2,4	EPS (adj.) growth-%	-91 %	-7311 %	-38 %	-60 %	-115 %
Cash flow	2017	2018	2019	2020e	2021e	EBITDA-%	2,9 %	-16,3 %	-7,3 %	-0,6 %	3,3 %
EBITDA	0,3	-2,0	-1,0	-0,1	0,5	EBIT (adj.)-%	0,4 %	-17,4 %	-10,0 %	-3,6 %	0,5 %
Change in working capital	0,3	0,4	0,6	-0,1	0,1	EBIT-%	-1,0 %	-19,5 %	-10,1 %	-3,7 %	0,4 %
Operating cash flow	0,6	-1,6	-0,3	-0,2	0,3	ROE-%	-26,4 %	-53,6 %	-49,2 %	-30,4 %	4,2 %
CAPEX	-0,5	-0,4	-0,6	-0,5	-0,6	ROI-%	-3,4 %	-52,7 %	-50,0 %	-28,8 %	4,2 %
Free cash flow	0,1	-1,8	-0,9	-0,4	-0,3	Equity ratio	71,0 %	59,1 %	42,1 %	37,3 %	41,3 %
						Gearing	-108,6 %	-123,1 %	-159,3 %	-169,1 %	-144,3 %
Largest shareholders	% of shares					Valuation multiples	2017	2018	2019	2020e	2021e
First Fellow Oy	16,9 %					EV/S	2,4	1,5	2,1	4,0	3,7
Oy Fincorp Ab	13,2 %					EV/EBITDA (adj.)	83,5	neg.	neg.	neg.	>100
Sijoitusrahasto Aktia Nordic Micro Cap	5,4 %					EV/EBIT (adj.)	>100	neg.	neg.	neg.	>100
Mandatum Henkivakuutusyhtiö	4,9 %					P/E (adj.)	>100	neg.	neg.	neg.	>100
Innovestor kasvurahasto	4,8 %					P/B	5,6	6,6	14,8	38,7	37,1
Ilmarinen	4,9 %					Dividend-%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %

Source: Inderes

Option programs

Option program	Subscription price, EUR per stock	Maximum mandate for option rights, # of options	Given option rights, # of options	Vested option rights, # of options	Maximum new shares based on given options, # of shares	Completed subscriptions, # of shares	Available vested subscription rights, # of stocks	Subscription period beginning	Subscription period end
2011	0,58	130 000	130 000	130 000	390 000	338 895	51 105	15/02/2011	31/12/2020
2015	1,61	135 000	99 000	95 250	277 500	139 000	138 500		
A-option-rights	1,50	45 000	24 500	24 500	73 500			30/04/2017	31/12/2020
B-option-rights	1,67	45 000	33 000	33 000	99 000			30/04/2018	31/12/2020
C-option-rights	1,67	30 000	26 500	26 500	79 500			30/04/2019	31/12/2020
D-option-rights	3,34	15 000	15 000	11 250	33 750			30/04/2020	31/12/2020
2018	4,97	450 000	450 000	0	450 000	0	0		
A-option-rights	5,75	170 000	170 000	0	170 000			02/05/2021	31/05/2022
B-option-rights	4,61	140 000	140 000	0	140 000			02/05/2022	31/05/2023
C-option-rights	4,39	140 000	140 000	0	140 000			02/05/2023	31/05/2024
Total		715 000	679 000	225 250	1 125 750	477 895	189 605		

Option program 2011

Option program 2011 consists of 130 000 options that entitle the holders to subscribe a maximum of 390 000 new shares. Each option entitles to subscribe three new shares. The share subscription period will end on 31 December 2020. The subscription price of a share is 0.58 euro. By 30 June 2020 a total of 338 895 shares have been subscribed with the options. There are 17 035 unused options that can be used to subscribe 51 105 shares.

Option program 2015

Option program 2015 consists of 135 000 options that entitle the holders to subscribe a maximum of 405 000 shares. The options are divided to four series: A series 45 000 options (of which 24 500 are allocated), B series 45 000 options (33 000 allocated), C series 30 000 options (26 500 allocated) and D series 15 000 options (all allocated, of which vested 11 250). Each option entitles to subscribe three shares. The share subscription period for the options is 30 April 2017-31 December 2020. The right to subscribe shares has the following schedule: A series vested on 30 April 2017, B series on 30 April 2018 and C series on 30 April 2019 and D series options vested on 30 April 2020. In accordance with the vesting conditions defined by the Board of Directors, the vesting rate of D series was 75%. The subscription prices are as follows: A series: 1.50 euro/share, B series: 1.6666667 euro/share, C series 1.6666667 euro/share, and D series 3.34 euro/share. By 30 June 2020 a total of 139 000 shares have been subscribed with the options.

Option program 2018

Option program 2018 consists of 450 000 options that entitle the holders to subscribe one share per option. The options are divided to three series: A series of 170 000 options with subscription price of 5.75 euro/share and subscription period of 2 May 2021-31 May 2022; B series of 140 000 options with subscription price of 5.00 euro and subscription period of 2 May 2022-31 May 2023; and C series of 140 000 options with subscription price of 4.39 euro and subscription period of 2 May 2023-31 May 2024. A series options have been allocated in 2018, B series in 2019 and C series in May-June 2020. In connection to the 2018 option program, the Board of Directors has set a share-ownership requirement for the participants.

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Buy - Stock's risk adjusted return is very attractive

Accumulate - Stock's risk adjusted return is compelling

Reduce - Stock's risk adjusted return is weak

Sell - Stock's risk adjusted return is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
11/03/2019	Accumulate	5,40 €	4,70 €
09/05/2019	Accumulate	5,40 €	5,00 €
23/08/2019	Accumulate	5,20 €	4,90 €
03/10/2019	Accumulate	5,20 €	4,92 €
25/03/2020	Reduce	4,75 €	4,51 €
12/08/2020	Accumulate	6,00 €	5,85 €
<i>Analyst changes</i>			
19/08/2020	Reduce	7,00 €	6,90 €
07/09/2020	Accumulate	8,00 €	7,05 €
27/10/2020	Accumulate	9,20 €	8,45 €
02/12/2020	Accumulate	11,00 €	10,00 €

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research.**