



Date and time of decision to initiate recommendation: 4 Dec 2019, 15:20 CET

A different kind of animal

As a medium-sized digitalised IT service provider with independent niche growth businesses, Siili Solutions holds a good position to continue to outgrow the general IT service market. With its strategy of actively breeding new growth businesses from its Core operations, Siili differentiates itself from the other medium-sized IT service providers in Finland. We find that Siili's operating model hides value and the growth looks attractively valued.

Key Data (2019E)

Price (EUR)	9.00
Reuters	SIILI.HE
Bloomberg	SIILI FH
Market cap (EURm)	63
Market cap (USDm)	70
Market cap (EURm)	63
Net debt (EURm)	3
Net gearing	14%
Net debt/EBITDA (x)	0.4
Shares fully dil. (m)	7.0
Avg daily turnover (m)	0.0
Free float	52%

Siili ('hedgehog' in Finnish) – Digital and specialised IT services

Siili's services can be divided into Core and Portfolio. Core provides modern tailor-made IT solutions for customers who are developing their IT platforms to meet the increasing demand for digitalised services and solutions. Portfolio is composed of independent business units, which are focused on a group of clients in a specific industry (Siili Auto) or specific type of services (Vala Group).

Value creative operating model and good earnings momentum

Siili aims to achieve shareholder value by actively breeding new independent businesses with promising growth potential. With the support of the parent company and Siili Core, the growth of Portfolio companies can be accelerated. In addition, the core business can continue to outpace the market growth and create solid cash flow. We expect Siili to achieve sales growth of around 10% in the medium-term. After reorganising in 2018 the company should enjoy good earnings momentum as the profitability returns to historical levels.

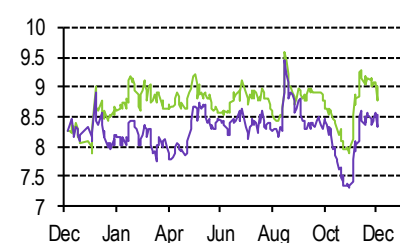
Current share price does not reflect the hidden value and growth potential

We estimate a fair value range of EUR 11-13 for Siili's shares, which translates to 2020E EV/Sales and EV/EBITDA multiples of 0.8x to 1.0x and 7.8x to 9.3x, respectively, which are broadly in line with the selected peers. With medium-term estimates that largely reflect the company's targets, our DCF valuation suggests a fair value of EUR 13 (WACC 9.5%). Our SOTP approach reveals that the hidden value lies in the growth potential of the loss-making Auto business.

Estimate Revisions (%)

	2019E	2020E	2021E
Revenues	3	8	12
Adj. EBIT	2	13	2
Adj. EPS	(89)	(87)	(88)

Share Price (12M)



Absolute (green) / Relative to Finland (purple).

Marketing communication

commissioned by:
Siili Solutions

Financials (EUR)

Year end: Dec	2017	2018	2019E	2020E	2021E
Revenues (m)	58	71	81	89	97
Adj. EBIT	5	2	4	6	8
Pre-tax profit (m)	5	2	4	6	7
EPS	0.57	0.23	0.47	0.70	0.85
Adj. EPS	0.57	0.23	0.47	0.70	0.85
DPS	0.39	0.23	0.30	0.35	0.45
Revenue growth (%)	19.6	21.9	15.1	9.8	9.0
Adj. EBIT growth (%)	20.9	(50.8)	80.0	42.7	19.6
Adj. EPS growth (%)	18.8	(60.4)	107.4	50.0	21.7
Adj. EBIT margin (%)	8.6	3.5	5.5	7.1	7.8
ROE (%)	20.5	7.8	16.0	21.6	23.1
ROCE (%)	24.7	9.0	13.1	18.6	22.4
PER (x)	19.4	35.9	19.2	12.8	10.5
Free cash flow yield (%)	4.7	2.2	8.3	10.2	11.9
Dividend yield (%)	3.5	2.8	3.3	3.9	5.0
P/BV (x)	3.73	2.89	2.96	2.61	2.28
EV/Sales (x)	1.20	0.86	0.81	0.69	0.58
EV/Adj. EBITDA (x)	12.0	14.6	8.5	6.4	5.2
EV/Adj. EBIT (x)	13.8	24.4	14.9	9.7	7.5
Operating cash flow/EV (%)	7.0	3.5	10.9	13.7	16.8
Net debt/Adj. EBITDA (x)	(1.41)	0.86	0.39	(0.14)	(0.59)

Source for all data on this page: SEB (estimates) and SIX/Thomson Reuters (prices)

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Investment case summary

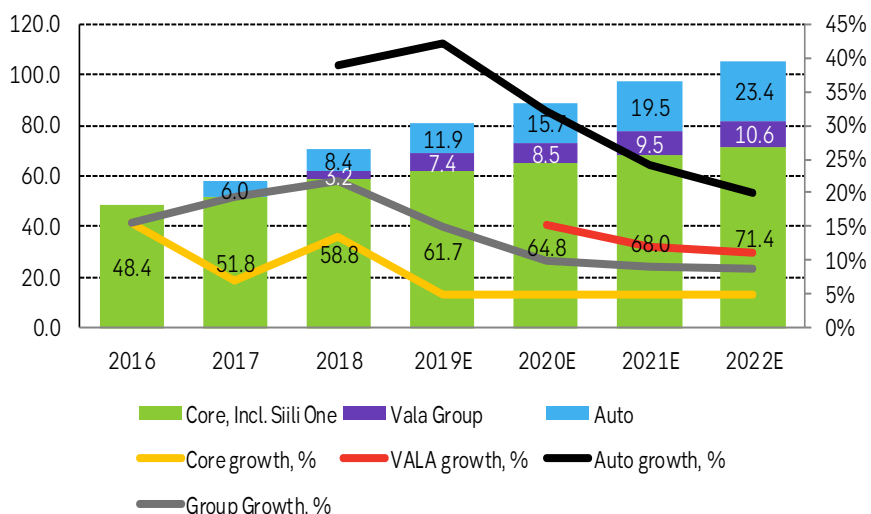
The Core business provides a steady foundation

As an agile medium-sized digital IT service developer with no historical ties to traditional IT platforms, we believe that Siili's Core business will continue to outgrow the general IT services market in Finland, which Gartner expects to expand at around 4% per year. Key client verticals, the public sector and financials, need their IT systems updated, maintained, and developed throughout the economic cycles, and therefore, Siili Core (close to 80% of sales) forms a stable and profitable part of the company's business.

Portfolio leads the growth

We believe that the strongest growth will take place in the specialised business units of Siili Portfolio, Siili Auto and Vala Group. Our base case assumption is that these businesses will grow at a rate of 11-26% over the next three years. Our expectation is that within Portfolio the fastest growth will originate from Siili Auto as the industry is being heavily impacted by the rise of advanced driver assistance systems (ADAS) and autonomous driving (AD), which increases the software components per vehicle. Furthermore, Vala Group should face increasing demand in software testing automation. In addition to an attractive market outlook, Vala Group, which was acquired in August 2018, should experience positive sales synergies as part of the significantly larger Siili business.

Siili's sales growth driven by Auto and Vala Group



Source: SEB

Shareholder value through the Core and Portfolio structure

We believe that over the next few years, Siili could be able to introduce new units to its Portfolio business (comprising Siili Auto, Vala Group, and Siili One), which originate from its Core business. These units face strong demand from Siili's home market, and Siili has been able to hire a skilled workforce to develop knowhow and expertise in these niche sectors. Siili Auto is the first proof of concept in this strategy. Siili can also acquire new companies for Portfolio with multiples below Siili's share, as it did with Vala Group. The company wants to expand and develop its Portfolio units into functioning independent business units whose value surpasses that of the group. Eventually, the portfolio businesses can be exited, ideally at multiples which surpass those of the group. Consequently, we find that the company can create shareholder value via multiples arbitrage.

Siili catalyst timeframe

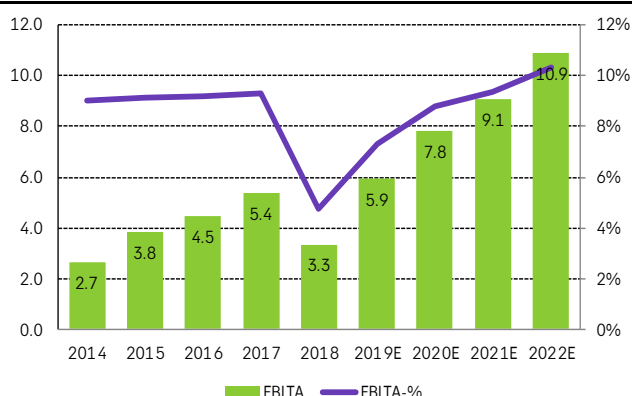
	0-12m	12-36m	>36m
What we expect			
Organic sales Growth	Vala Group and Siili Auto drive growth	New portfolio nucleus being formed	Growth led by Portfolio
Profitability	Improving utilisation, modest fixed costs	Auto reaching break-even	Specialized services profitability improves
Spinoffs	Unlikely	Possibly, not likely, Siili Auto	Siili Auto, Robocorp
What we expect in numbers			
Organic sales Growth	10%	9%	7%
EBITDA margin	10.6%	11.6%	11.9%
Number of employees	752	834	> 950
Sales (EURk) per employee	118	121	>120

Source: SEB

Improving earnings momentum after reorganisation and development

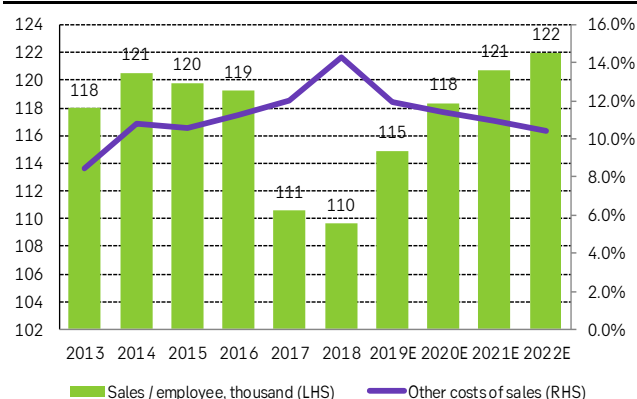
Siili reported relatively weak profitability in 2018 when the company restructured its organisation and operating model, and the company placed more effort in its lucrative auto business. The new operating model should allow improving staff utilisation. The fixed costs were high in 2018, but we believe future growth should occur with higher operational leverage. Another important profitability contributor is the auto business, which we estimate has been loss-making. As the growth continues, we expect the business to gradually achieve profitability. We find that Siili should be able to reach its profitability target of 10% EBITA margin in the medium-term.

EBITDA margin to reach 10% by 2022



Source: SEB

Staff utilisation & operational leverage driving margin



Source: SEB

Valuation summary – Indicative fair value range of EUR 11-13

We have assessed Siili's valuation through DCF, SOTP, and peer group valuation methods and issue an indicative fair value range of EUR 11-13 per share. This implies 2020E EV/Sales between 0.8x to 1.0x and EV/EBITDA range of 7.8x to 9.3x. In our view, Siili's shares should trade at least in line with the medium-sized Nordic peers thanks to its attractive Auto business and new potential portfolio candidates. Our indicative DCF valuation mid-point, with estimates that are broadly aligned with the company's targets, is EUR 13. We note that the current share valuation implies WACC of over 13% with our forecasts. Our SOTP valuation for Siili indicates a range of EUR 11-14 per share. The potential upside is broadly attributable to the value of Siili Auto.

Siili valuation summary

Method	Multiple range	Fair Value (EUR)			
		low	high	low upside	high upside
Peer, EV/Sales	0.8x - 1.0x	10.0	13.0	9.9%	42.9%
Peer, EV/EBITDA	7.1x - 9.3x	10.0	13.0	9.9%	42.9%
SOTP		10.9	13.9	20.0%	52.7%
DCF		12.0	14.0	31.9%	53.8%
Average		11.0	13.6	13.3%	48.1%
Current share price (EUR)		9.1			
Upside potential (%)		13.3% -48.1%			

Source: SEB

Risks to our investment base case

The key risk to our investment base case is that the company is unable to hire attractive talent to fuel growth. Employees are the one key resource for the company, and without a steady supply of new staff the growth stops. Another operational risk comes from staff utilisation. Siili wants to make sure that sales per employee continue to increase, in particular to reach its profitability target. Other risks include failure to make successful acquisitions. Although we prefer organic growth, it is beneficial for Siili to acquire strong teams in the IT services industry to gain the talent and knowhow it needs. This may be important to expand its international presence. We think it is positive that Siili is cautious when building teams in other countries. However, managing international operations strictly from Finland may prove to be too challenging a task.

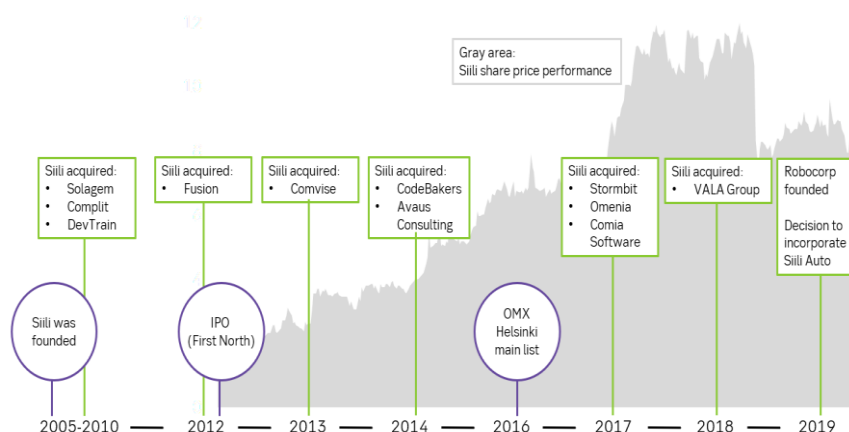
Company description

Brief history

Siili solutions was founded in 2005 to create modern IT services in a rapidly digitalising world. From an IT expert staffing driven business, Siili has been able to grow rapidly to a medium-sized full-service IT service firm with relevant market position in Finland and attractive international growth opportunities in more specialised niche areas. Since its founding, Siili has shown fast organic growth with good profitability. The growth has been fuelled by selective acquisitions of smaller players with specific know-how. In November the company welcomed a new CEO (Marko Somerma) after one of the founders stepped down from the position.

The company was initially listed in 2012 (First North market place) and its shares were listed on the main list of the Helsinki Exchange in 2016. The current market cap of the company is around EUR 60m and the company aims to expand to the medium cap category, meaning market cap of EUR 150m, over its strategy period (up to 2022).

Siili key milestones and share price performance



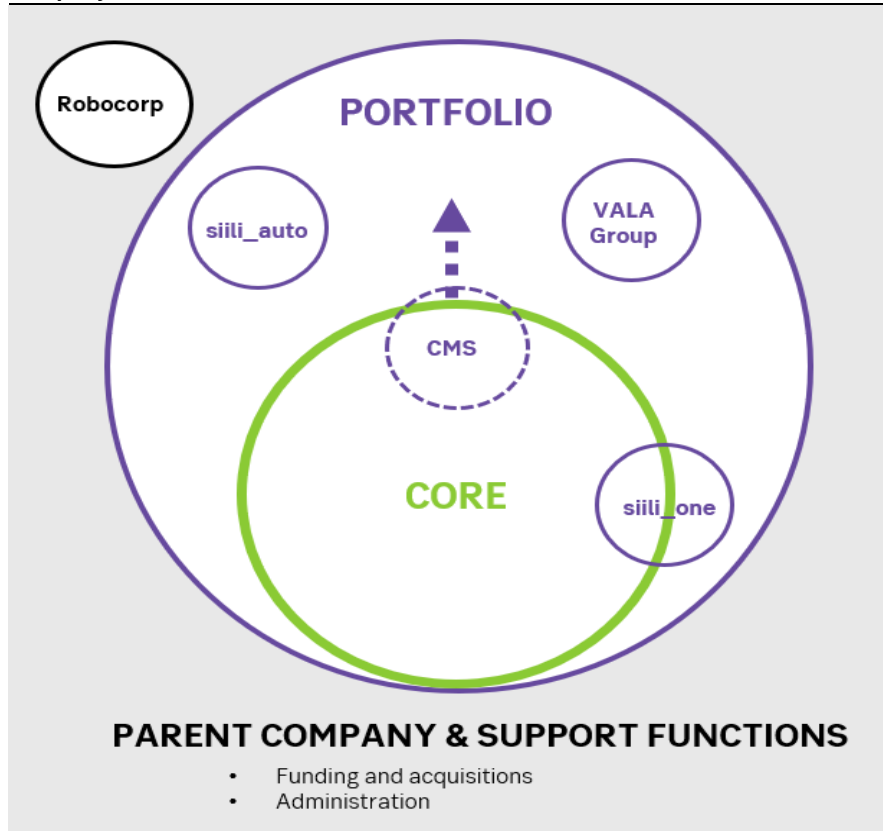
Source: SEB

Siili overview – Core and Portfolio

Two sets of business units

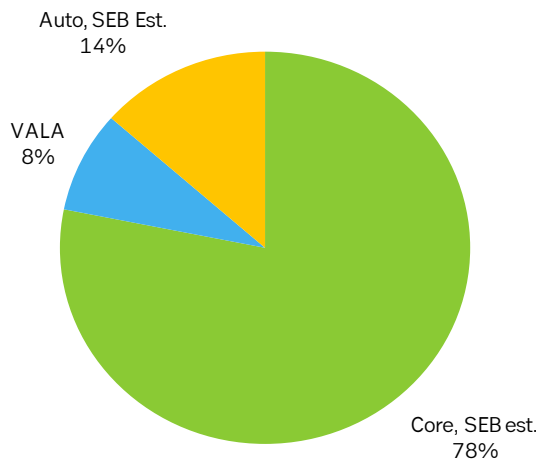
Siili has structured its operating units under two larger strategic segments: Core and Portfolio. While Core focuses on tailored digital solutions in the Finnish markets, Portfolio is formed of independent businesses with their own niche technology and/or customer segment. Portfolio holds Siili Auto and Vala Group while minority holding in Robocorp is classified as a separate holding. The next most potential candidate for Portfolio is Content Managed Systems (CMS).

Company structure



Source: SEB, Siili

Core was 78% of total revenues in H1 2019 (SEB est.)



Source: SEB estimates

Core is at the heart of Siili

In accordance with its name, in its Core business Siili delivers its core services, i.e. design and development of digital IT services. More precisely the service offering accounts:

- **Research and insight creation** – Allows customers to face challenges and exploit the opportunities in the digitalising world.
- **Business, service, and experience design** – Holistic design of solutions which are viable in a business manner and feasible to produce and operate.

- **Enterprise, solution, and technology architecture** – Structural analysis and design of operating models, software, platforms, and data, and building an ICT application architecture landscape. Designing and implementing the right solution for customer needs.
- **Software development** – Process of computer programming, testing in order to create and maintain software products and the related applications.
- **Data science and engineering** – Combining domain and business knowledge, software engineering, and scientific methods to create value out of customer data. Engineering features, architecture, collecting, storing and processing data for customer use.
- **Continuous services** – Agile end-to-end services to allow smooth and efficient customer operations.

Core accounts for close to 80% of the company's external sales with key customers from the public and financial sectors. Siili aims to offer its core competences which help customers to develop business-critical applications that have an increasing strategic role in the digitalising world. As the customer relationships deepen, Siili can offer the full lifecycle of modern IT services, meaning that the new era IT solutions require continuous development and maintenance work, including cloud and data platforms. Hence, Siili is able offer full lifecycle digital service development and maintenance, in addition to continuously finding new opportunities which the new technology offers.

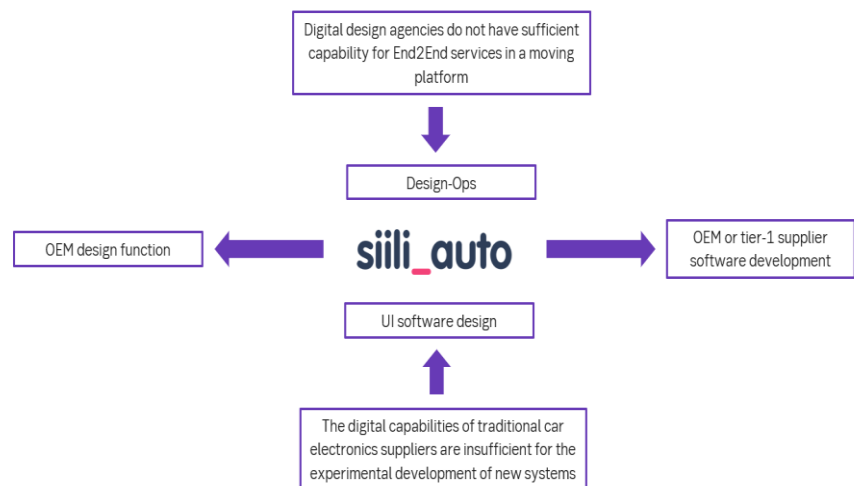
The other role of Siili Core in the new organisational structure is to breed new business candidates which could become new Portfolio companies. The ideas arise from ongoing customer projects and Siili's internal R&D operations which actively sound new opportunities. If there is sufficient and increasing client demand for particular solutions, Siili begins to form a nucleus of expertise around the topic. The most recent example is robotic process automation (RPA), which was spun off as Robocorp Ltd. Over time, more talent is formed around the nucleus and it may form a new standalone independent Portfolio unit. These units form an additional potential spearhead for international growth.

Portfolio of independent companies which fit into Siili's strategy

In Portfolio, Siili has independent businesses with specific capabilities and/or customer niches. The portfolio companies can be acquired, or they can be spun off from Siili Core. The parent company and Siili core accelerate the growth of the Portfolio businesses by providing funding, admin, and sales support. The thinking behind the portfolio concept is relatively new in Siili, but the company has a clear vision to add more businesses in Portfolio.

Siili Auto – dedicated to serve clients in the automobile industry, which is being revolutionised by autonomous driving (AD) and advanced driver assistance systems (ADAS). The software content per vehicle is increasing at a rapid rate (at a CAGR of 11% by 2030 according to research by McKinsey). In 2010, modern vehicles had 10m lines of software code. By 2016 this had amounted to 150m and is expected to continue to grow. Siili Auto's clients are OEMs as well as Tier 1 suppliers. Siili Auto's clients are located in Germany and the US and they are served from Siili's offices in Poland and Finland. Examples of applications designed by Siili include centre consoles, electronic dash boards, and in-vehicle infotainment systems (IVIs).

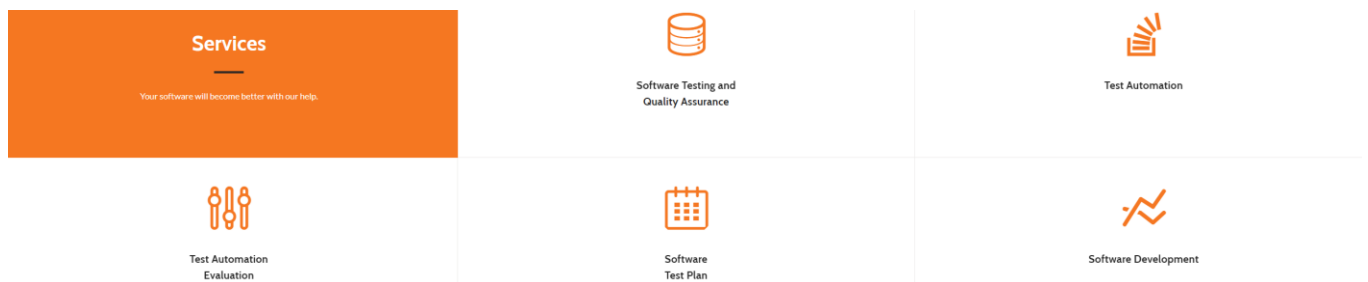
Siili Auto's position in automotive software development



Source: SEB

Vala Group – Siili acquired Vala Group in August 2018. Vala Group was founded in 2008 and has 90 employees. Vala Group’s main operations are in Finland. However, a part of its business originates from Germany and Romania. Vala’s key service areas include quality assurance and software testing, test automation evaluation, software test planning, and software development. Vala Group operates as its own autonomous unit, benefitting from Siili’s access to market and centralised functions. Automated testing involves static and dynamic testing of software scripts. The automation in static testing can be implemented early in the software development lifecycle when the code is not logically completed.

Vala Group services



Source: Vala Group

Siili One – resembles the original Siili business. Siili One provides specialist or generalist software development services and consulting for organisations outside the top tier clients. However, Siili One’s external revenue is relatively small, and the unit mainly serves internally Siili Core operations. In Siili One the company sells man hours to either external clients or to Siili Core. Typically, Siili One’s developers work at client premises and the contracts are effective as long as the client has the need. Client account sizes in Siili One vary greatly, ranging from single workers to several.

Content Management Systems – the next potential portfolio candidate

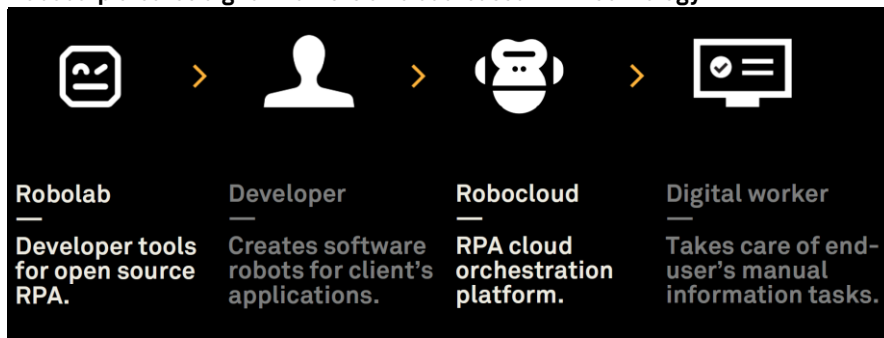
Content Management Systems (CMS) is a new potential portfolio initiative. CMS creates public websites, eCommerce sites, and corporate intranets. CMS utilises commercial tools such as Sitefinity, Drupal, Sitecore, and Sharepoint. The majority of CMS clients are Finnish, but increasingly international, medium to large cap companies. Typically, sites are designed on mobile first as the use is increasingly on smartphones. The unit is building its own customer database and sales. In addition, Siili CMS is building its own brand and identity as steps towards becoming its own Portfolio unit.

Robocorp (minority holding)

A prime example of a Siili Core nucleus is Robocorp. Robocorp is a start-up, which focuses on developing open source tools and a cloud platform for clients aspiring to effectively utilise robotic process automation. Robotic process automation (RPA) is the application of technology to configure computer software or a robot to capture and interpret existing applications for rule-based processing of transactions, manipulate data, trigger responses, and communicate with other digital systems. RPA deals with the application of smart software to perform high-volume, repetitive tasks, which are currently performed manually by humans. RPA allows business to redeploy employees from their repetitive tasks towards activities which can add more value.

Financial service organisations are coping with ever-increasing data volumes and transactions structured around legacy systems, which are challenging to integrate. The implementation of RPA is enabling the organisations to realign resources to focus on high-value customers and strategic roles. Furthermore, RPA offers strong opportunities in multiple industries by facilitating better services and optimising an existing business process.

Robocorp creates digital workers on cloud-based RPA technology



Source: SEB

Siili Solutions made seed investment worth EUR 150,000 into the company in January 2019. Siili is Robocorp's partner and customer. Robocorp completed first round of institutional funding in November 2019 where it raised USD 5.6m. The funding was made by US investors, led by Benchmark, with participation from Slow Ventures, Firstminute Capital, Bret Taylor (president and chief product officer at Salesforce) and Docker CEO Rob Bearden. The capital is planned to be used to hire more developers and scale up the cloud platform. Because the company has a product element (which is far off from Siili's business of providing IT Services), Siili chose to seek external owners and not seek a commanding position in the company.

What Siili does – client case examples

Wärtsilä – Siili Content Management Systems

Siili provided Wärtsilä with a Sitefinity website running on the Amazon Web Services (AWS) platform. Sitefinity enables Wärtsilä to track visitor behaviour and personalise the customer experience. Using this approach, Wärtsilä can offer highly tailored experiences for each prospect/client.

SSAB – Siili Core

Siili helped SSAB to take steps in its path of digitalisation. Examples of actual services which materialised through the co-operation were welding documentation to the client cloud and stock accounting by scanning, which helped SSAB communicate with clients on timetables of deliveries, supply stack, and to deliver the client documents in a digital format. In addition, Siili provided SSAB with an identity management system, version control, and enhanced data security and enterprise architecture.

Empower – Siili Core

Siili cocreated a customer relationship management (CRM) system for Empower called EnerimCIS. Siili provided the company with solutions related to system design, user interface design, software development, and architecture.

Amer Sports – Vala Group

Amer Sports has developed a sports and fitness application for everyday training. Users can record their sports data and connect with other users through the cloud. Amer Sports utilised Vala Group's knowhow in quality assurance (QA) testing to test and introduce changes into the core functionalities of the application to avoid potential problems in the software.

Key client sectors

We believe that the key customer sectors for Siili are the public sector (around 35% of sales, we estimate), financials (around 25% of sales, we estimate), and autos (around 10% of sales, we estimate). We note that for Gofore, which is a close rival in the Finnish market, the public-private sector split is 69%/31% (H1/19). According to Siili, a significant part of its sales come from its top 10 clients. We estimate that its top 10 clients represent approximately 60% of its sales, followed by a large number of smaller clients. According to Siili, the client concentration has declined over recent years. Typically, Siili's clients start off small and projects and client sizes are gradually expanded.

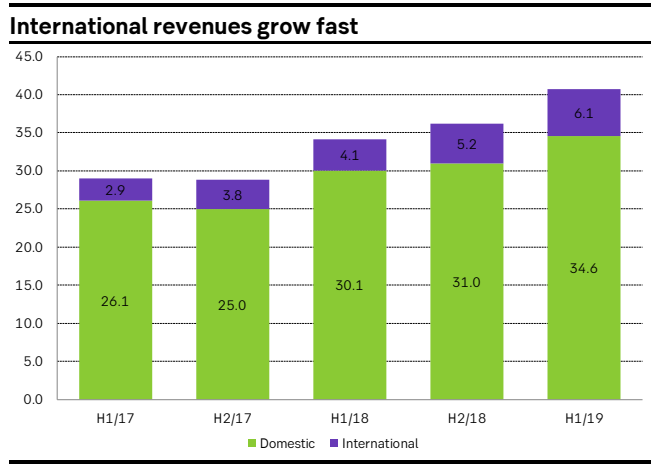
According to Siili, a large proportion of the company's sales come from providing solutions to business-critical functions. The main bulk of the business comes from clients with whom Siili has had a continuous business relationship. Approximately 5% of total sales come from one-off project sales, which demonstrates the strong retention of the business relationships and the sales.

Siili targets approximately 250 of the largest companies in Finland as well as the public sector. In Core, Siili targets clients whose account size can be readily increased to EUR 1m in recurring revenue over time. In Portfolio, client sizes vary over a wide range. Siili Auto serves large OEMs and Tier 1 clients, whose potential over time is significant. However, Siili One can sell single workers to clients, meaning annual revenues of tens of thousands of euros. Typically, clients (excluding public sector, where initial orders may be large) start off from a small size (some tens of thousands of euros with a few persons), and the accounts are built incrementally. Key to Siili's growth is to increase sales to existing clients, although new client onboarding cannot be overlooked.

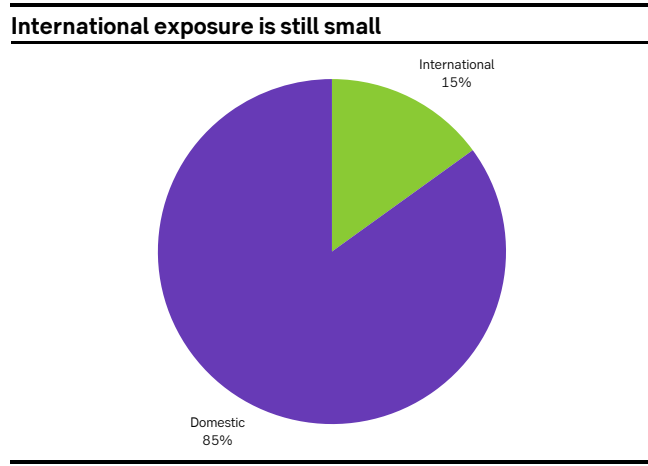
International operations

At the end of H1/19 international exposure was 15% in terms of revenues. The main bulk of non-Finnish revenues originated from Siili Auto (whose exposure is mainly international), in a lesser degree from Vala Group, and some minor revenues from portfolio initiatives. We expect Siili Auto to grow on average at a rate of 33% between 2019 to 2021. In addition, new portfolio candidates can be expected to have potential in international markets. As a result, we believe that the share of Siili's international revenues will grow, albeit from a low base, and at a fast rate over next few years.

International expansion will be an important factor in Siili's sales growth. We believe that in the short to medium-term the key driver of international exposure will be Portfolio units Vala Group and Siili Auto. However, we expect an increasing amount of new portfolio initiatives arising from Core with international potential. We expect Siili to expand internationally in a controlled manner. We do not expect the company to initially invest heavily in sales teams in other countries, but rather expand its international operations from Finland. However, as volumes grow, we believe there may be gradual ramp-up of small-scale local presence in the target markets.



Source: SEB, Siili Solutions



Source: SEB, Siili Solutions

Strategy

Siili Core functions much like any other IT services provider and serves clients with heterogeneous IT and digital service needs. Siili strives to optimise clients' workflow and processes, help them digitalise operations, and offer them the outsourced IT staff whenever needed. Typically, the services provided by Siili are close to clients' core businesses and, more rarely, add-on applications. Through the client projects, Siili aims to form a nucleus of expertise around topics which face broader client demand.

Once a core of expert staff has grown large enough and the management identifies further demand for the specific types of services, the team can be formulated into its own business unit in the Portfolio business. The company aims to establish an independent network of units, each with less than 200 employees. The Portfolio units specialise in specific niches serving a specific group of clients. The units are supported by centralised support and administrative functions as well as HR, finance and legal. Portfolio units may have their own sales, but they also benefit from Siili's access to markets and the broad existing clientele. Furthermore, Siili helps Portfolio units with branding and marketing, functions which otherwise might be underdeveloped.

In its personnel strategy, a cornerstone of a successful IT service company, Siili offers a number of growth opportunities for the IT services experts. The opportunity to become a high-skilled specialist in an area of expertise is seen at the core of Siili's personnel strategy. However, for those with leadership or sales ambition, Siili can offer career paths towards such roles. In addition, for the employees with entrepreneurial mindset and ambition, Siili can offer responsible roles in the portfolio companies.

Siili's financial targets

At its capital markets day on 13 November, Siili updated its Financial targets. In the medium-term (2020-2022), Siili aims to achieve the following financial performance:

- Organic growth of over 10%, complimented by strategic acquisitions to support the development of key competences.
- EBITA margin in 2020 to improve from 2019 and in 2021-2022 EBIT margin of around 10%.
- Growth of Siili Group's international business of at least 2x the growth of its domestic business.
- Dividend payout ratio of 30-70% of net earnings.
- Net debt to EBITDA of less than 2x, with exceptions allowed.

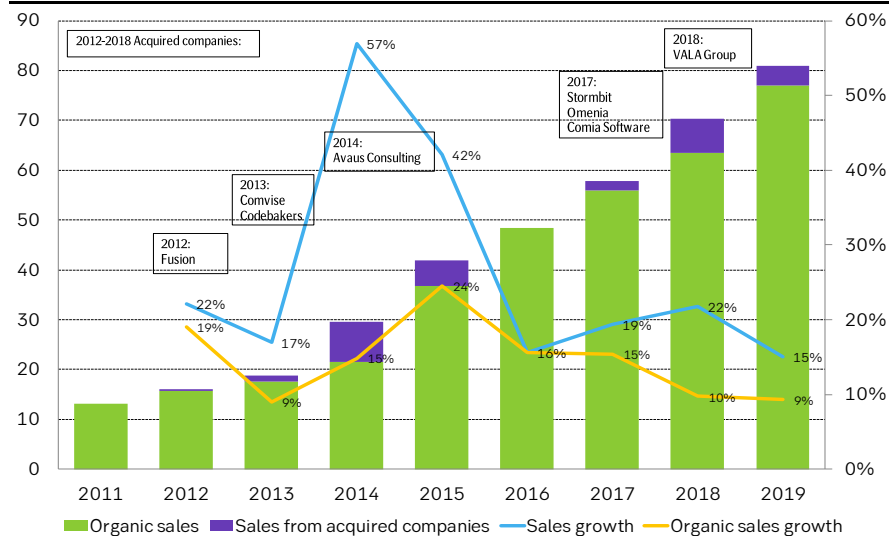
In addition, Siili's operational target is to grow to a medium-cap sized company, which we assume means market cap above EUR 150m. Given that the company's organic growth target would take sales to EUR 105m by 2022, we find that the medium-cap company target implies that Siili is ready to continue its M&A strategy.

Historical financial performance

Sales growth of 27% per year since 2011

Siili's sales in 2018 totalled EUR 70m and the company has increased its sales since 2011 by 27% per year (CAGR). The sales growth has been boosted by acquisitions, but we note that the company has been able to show solid organic growth, between 9% and 24% since 2012. We calculate that the companies acquired in 2012-2018 have added EUR 28m in sales and the company has been able to increase its sales by EUR 65m (2019E) since 2011. Consequently, around 40% of its growth has been acquired.

Sales growth and organic sales growth (EURm)

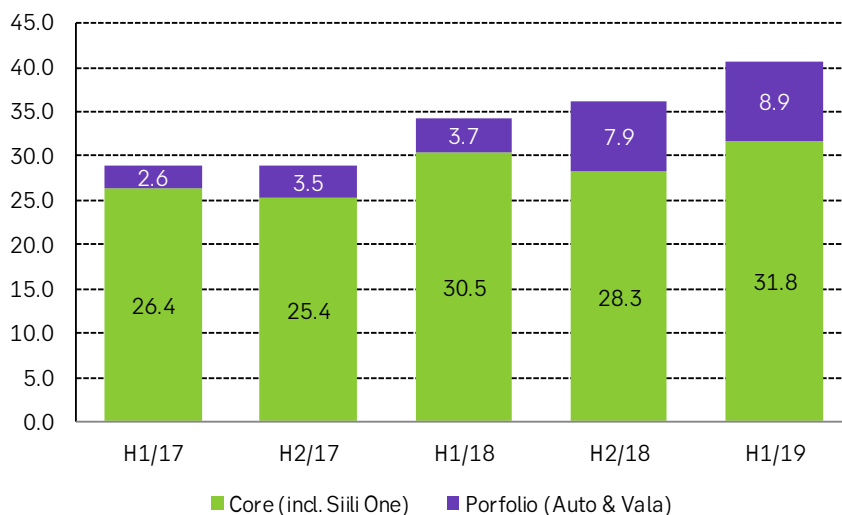


Source: SEB, Siili

Sales split according to our estimates

We have estimated Siili’s sales split history in the chart below. Until H2/18 Siili Portfolio was only composed of Siili Auto. Siili does not explicitly disclose the unit’s sales. However, it discloses the amount of international sales, which added up to EUR 2.9m in H1/17 and EUR 6.1m in H1/19. We have approximated that the share of Siili Auto formed 90% of international revenues. This would imply Siili Auto sales of EUR 2.6m in H1/17, EUR 3.5m in H2/17, and EUR 3.7m H1/18. In H2/18 Vala Group was included into the Portfolio, whose sales (excluding business with Siili Group) in H2/18 and H1/19 were EUR 3.2m and EUR 3.4m, respectively.

Core and Portfolio (Auto & Vala) sales split previous semi annuals



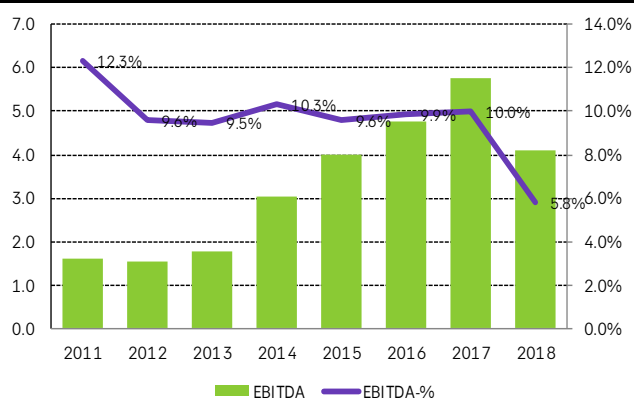
Source: SEB

EBIT and profitability

Throughout its growth, Siili has reported stable EBITDA margins, excluding the decline in profitability in 2018. The EBITDA margin has been around 10% since 2012, which in our view shows strong performance given the robust growth and acquisitions. In terms of EBIT, the company reported growth of EUR 3.6m or 250% between 2011 and 2017, and the EBIT margin varied between 6% and 11%. We note that the decline in 2014 EBIT margin was due to higher amortisation related to acquisitions.

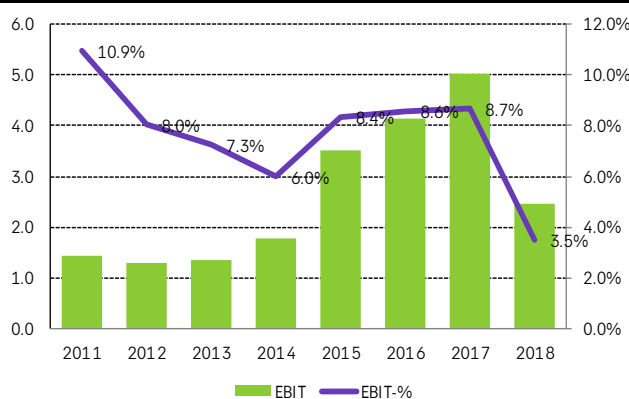
The decline in profitability in 2018 was due to one-off related development costs, and somewhat lower underlying profitability due to lower staff utilisation and higher wage inflation. We note that Siili has rapidly increased the sales in its Auto business (2018 growth of 39%), but with low profitability as the company has had to invest in the foundations of the lucrative business area.

EBITDA (EURm) and EBITDA margin (%)



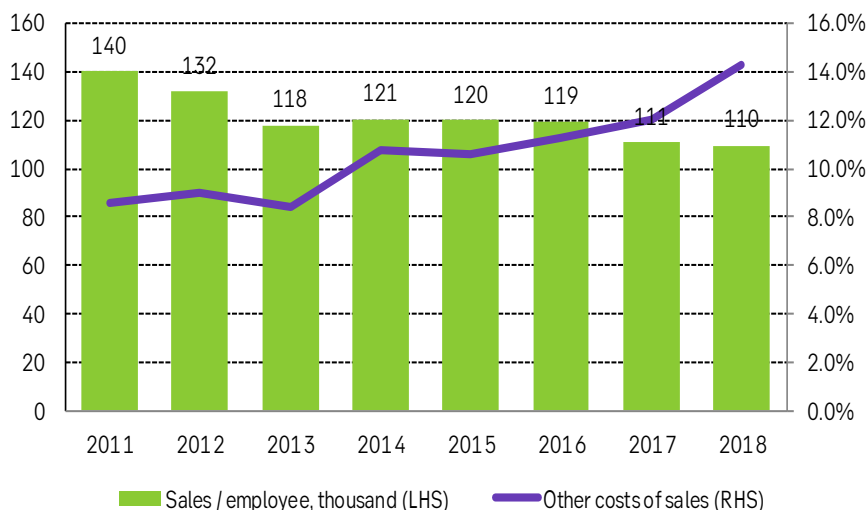
Source: SEB, Siili

EBIT (EURm) and EBIT margin (%)



Source: SEB, Siili

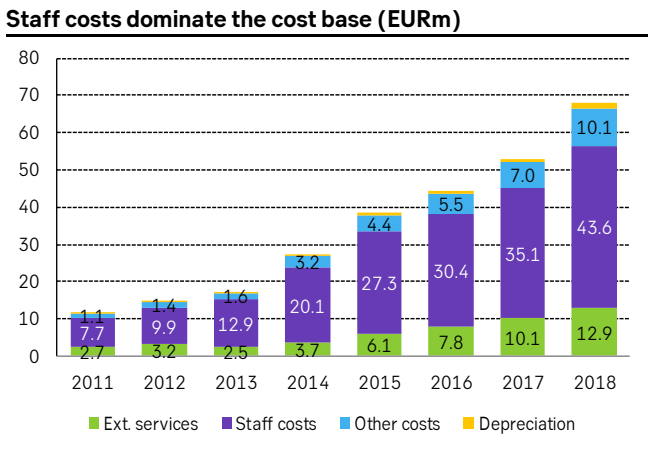
Lower margin owes to staff utilisation & rise in fixed costs



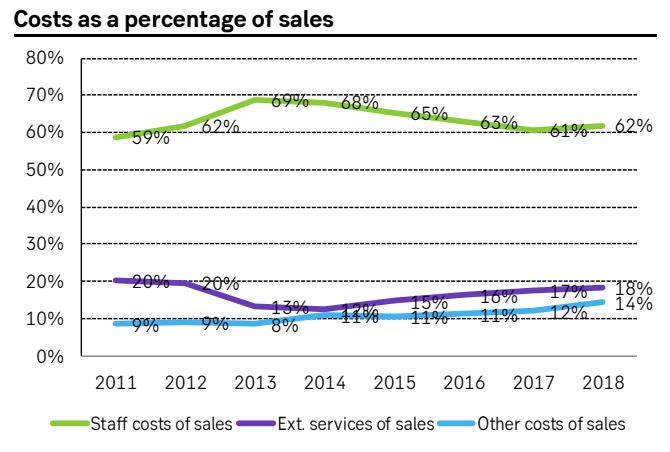
Source: SEB

Cost structure

Similar to other IT services companies, Siili's cost structure is dominated by staff costs. Siili's employee costs of sales has been slightly above 60% in the past. Note that the external service costs are mainly outsourced related costs and therefore employee related costs in nature. Siili's external services have been increasing since 2014 and were 18% of sales in 2018, meaning the company has used more outsourcing in the past few years. In addition to the direct employee costs, a large share of the other costs are employee related and the costs have been growing faster than sales in the past few years. However, in 2018, when other costs were 14% of sales, there were some one-off costs related to the Vala Group acquisition and new IT systems for the group.

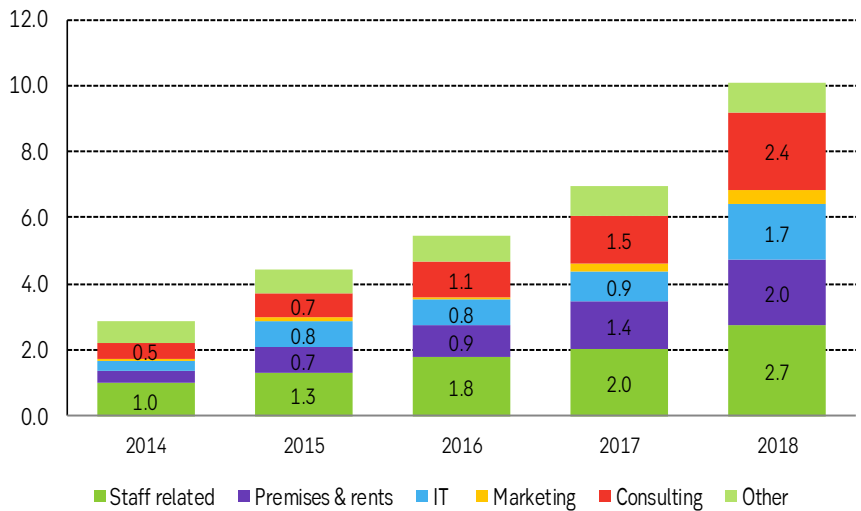


Source: SEB, Siili



Source: SEB, Siili

Other costs (fixed) increased in 2018



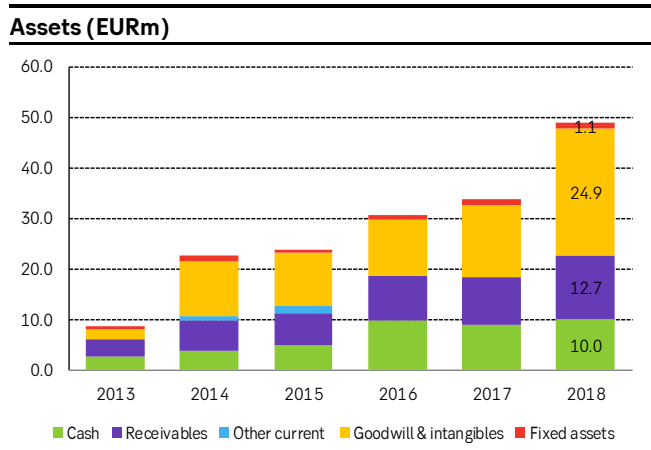
Source: SEB

Balance sheet

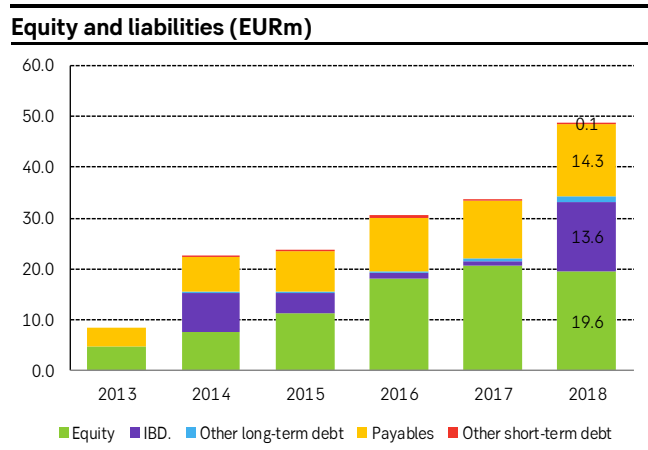
Siili's business is asset-light. However, because the company has supported its growth through acquisitions, the total assets have grown faster than the top line in the past few years. Following the acquisitions, the goodwill and intangibles total around EUR 25m and represent close to 50% of the assets. The remaining part of the assets comprise receivables and cash, and the company's liquidity position is solid.

The equity ratio is 40%. Payables are slightly higher than receivables and therefore the working capital is slightly negative. The company held interest bearing debt of EUR 14m as of year-end 2018. However, around EUR 6m of this debt is contingent liability related to the purchase price of the remaining part of Vala Group, which is fully consolidated in Siili's group accounting.

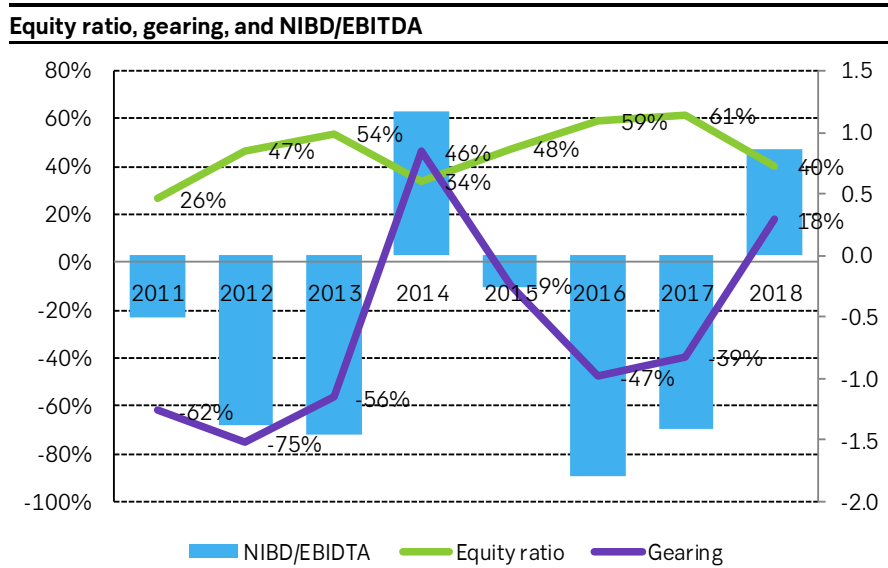
The net debt was EUR3.5m at the end of 2018 after the Vala Group acquisition. After 2011 the company has had a conservative funding policy and although the purchase of Avaus Consulting resulted in positive gearing, the situation fixed rapidly.



Source: SEB, Siili

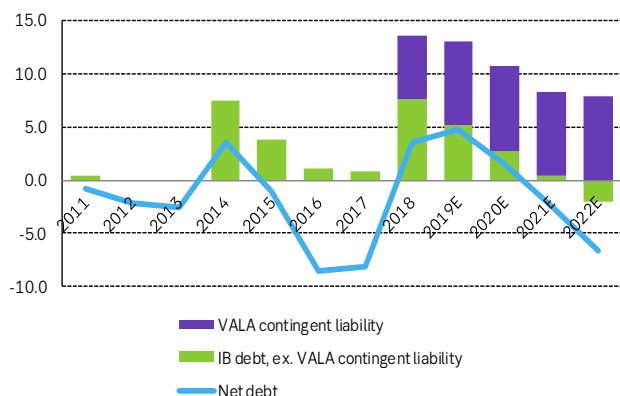


Source: SEB, Siili



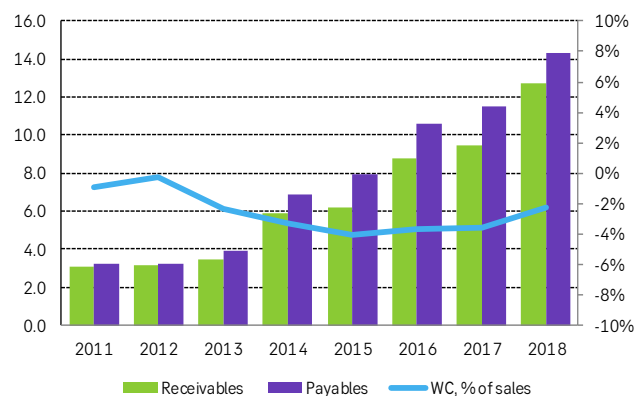
Source: SEB, Siili

Net debt (EURm)



Source: SEB, Siili

Minor funding from working capital

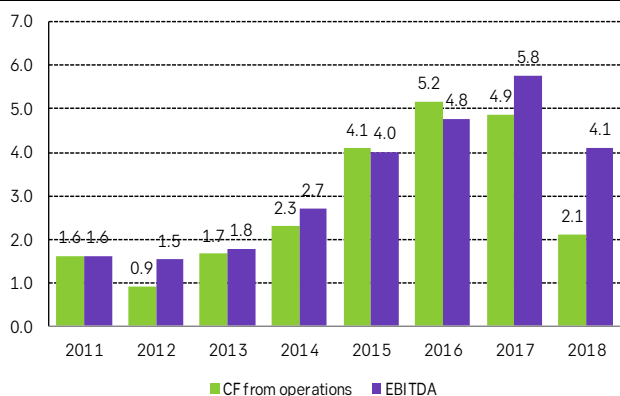


Source: SEB, Siili

Cash flow

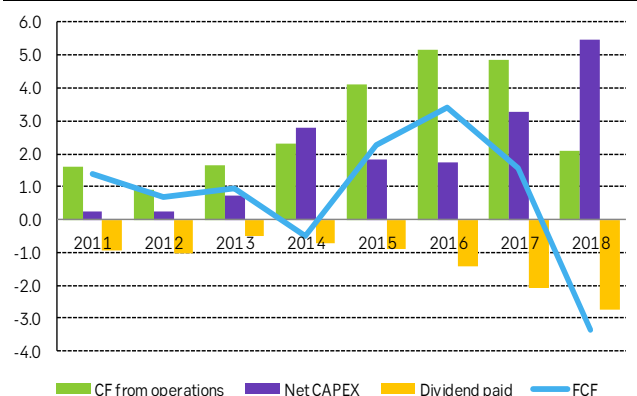
Siili's cash flow conversion rate has been relatively high, i.e. the cash flow from operations has been in line with EBITDA performance, except for 2018 when more capital was tied in working capital. The free cash flow, however, has fluctuated depending on the acquisitions. We note that the maintenance capex in Siili's operations are relatively low and hence acquisitions excluding cash flow generation is relatively solid.

Cash flow from operations & EBITDA



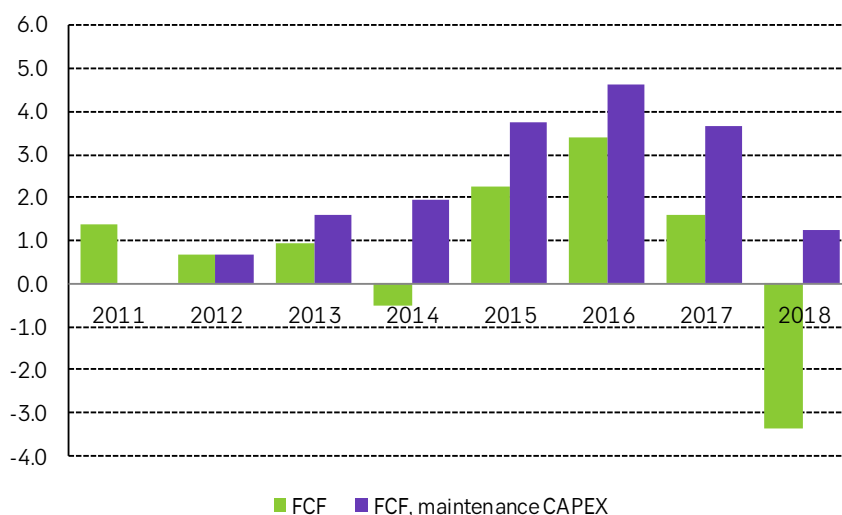
Source: SEB, Siili

Acquisition of Vala resulted in negative FCF in 2018



Source: SEB, Siili

FCF reported & FCF, excluding acquisitions

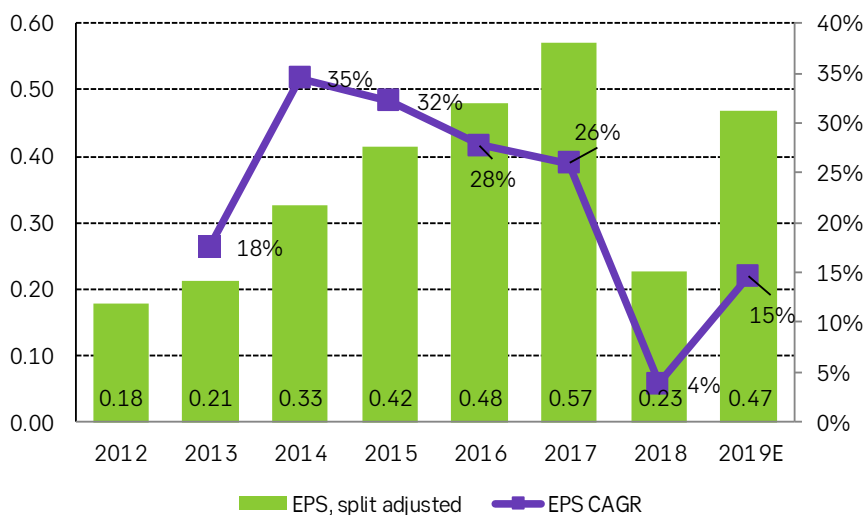


Source: SEB

Value creation through acquisitions

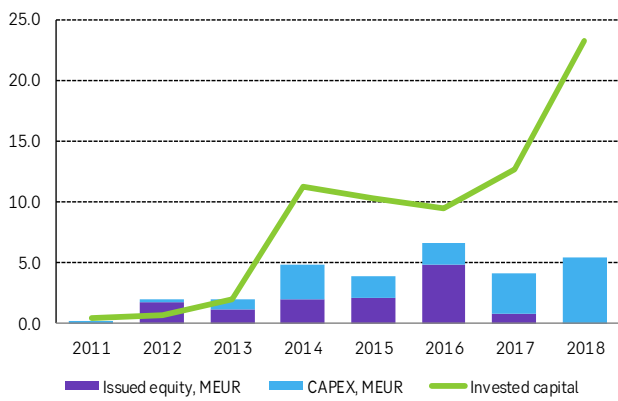
As explained above, around 40% of Siili’s sales growth since 2011 has been acquired. To fund the acquisitions, Siili has used its own share and debt, in addition to organic cash flow. Since its listing in 2012, Siili has increased its EPS by 26% (2017), or 15% (2019E). We note that until 2017 the EPS growth was in line with the sales growth and we conclude that the acquisitions have been shareholder value creative. With 2018 EPS the performance looks weak, but we note that the year was exceptionally weak due to organisational changes. Furthermore, investing in the attractive automotive business has come at the cost of temporarily lower profitability.

EPS and EPS growth (CAGR since 2012)



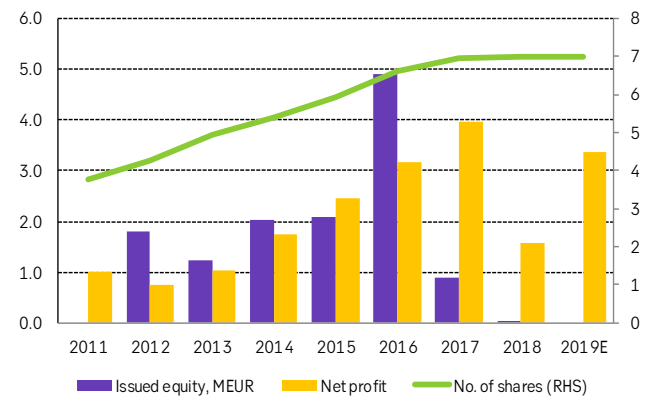
Source: SEB, Siili

Capex, issued equity and invested capital (-2014 FAS)



Source: SEB, Siili

Shares used for funding until 2017



Source: SEB, Siili

Market overview

Market drivers and trends

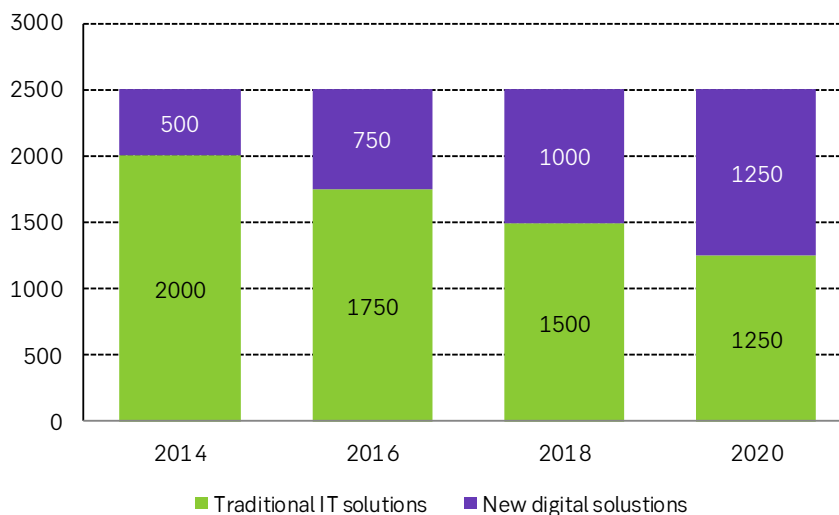
The IT services market in Finland

Gartner estimates that the Finnish IT Services market is worth around USD 4.3bn and will grow 3.9% in 2019. The growth for 2020 and 2021 is expected to be around 4%. Both the public and private sectors face the need to upgrade existing systems and services. However, a large part of the growth originates from the emergence of new data-based use cases. FinTech is revolutionising the finance industry. Some disrupting technologies include mobile payments, crowdfunding, block chain, crypto currencies, as well as other finance and insurance software. Robotic process automation (RPA) is offering significant cost saving possibilities, e.g. back office functions and standard reporting. In addition, companies are increasingly replacing their on-premise servers with cloud-based solutions. These are megatrends which will continue to shape different areas of the economy for the years, fuelling IT service market growth.

Digital service development is leading the growth

According to a study, assigned by Siili management, the digital service sector is estimated to be worth EUR 2.2bn (around half of the total IT services market) and the annual growth of the sub-segment is estimated to be 5-10%. The chart (Siili's 2014 annual report) below shows the trend of digital services outgrowing traditional IT services.

New digital solutions are outgrowing traditional IT services (illustrative)



Source: SEB, Siili Annual report 2014

Companies in Finland are seeking growth opportunities in industrial digitalisation, driven by new opportunities in digital marketing and delivery channels, in addition to the opportunities generated by the consumerisation of information technology. Digital solutions and services have an increasing strategic role for most companies as they allow more convenient customer interaction. With digital services the companies can also drive new business opportunities. In addition, with digital services the companies can find several new opportunities to increase operational efficiency. In addition, the digital services develop relatively fast and the customer requirements become more demanding.

A strong ICT market in Finland driven by structural changes

According to US-based export.gov data, the information and communication technology (ICT) sector in Finland employs around 7% of the nation's workforce, which was the highest in the EU in 2017 (the average was 3.7%), with most of the workforce involved in the software business.

In Finland, structural changes are taking place in the industry – demand is changing from customer-specific projects to cloud services. Finland has the highest use of cloud services in Europe, with the other Nordic countries close behind. The 2017 Eurostat Survey showed that 66% of companies in Finland use cloud services. The growth in cloud services has been particularly strong in the last five years as Finnish companies are used to purchasing services from third parties and there are no significant barriers for using third-party services. Strong penetration of software as a service (SaaS) in Finland is one reason for the wide adoption of cloud services.

Finland has the world's highest mobile data usage per capita and second-highest mobile broadband penetration rate. As a percentage of GDP, Finland ranked sixth in Europe for ICT R&D expenditure at 5% in 2015. In addition, Finland has shown the highest amount of venture capital raised by start-ups and growth companies in Europe, relative to GDP. Moreover, the average cost of a 20-member R&D unit is 50% lower in Finland than in Silicon Valley.

The country is undertaking significant efforts to digitalise a broad range of government services and intends to develop advanced digital government infrastructure to reflect the increasingly e-commerce driven economy. From 2018 to 2022 the government intends to spend USD 451m, including direct capital funding and regional grants, to support various digital projects run by the country's local authorities. In addition, the government is taking a proactive approach to support artificial intelligence (AI) development and is aiming to be one of the leading economies in the use of AI. To support this effort, the government has established a four-year programme called "AI Business" which aims to spend USD 226m over 2018-22 to fund Finnish start-ups, SMEs, mid-caps, and large companies to develop and utilise AI platforms in business applications.

The issues arising from the demand of a skilled workforce

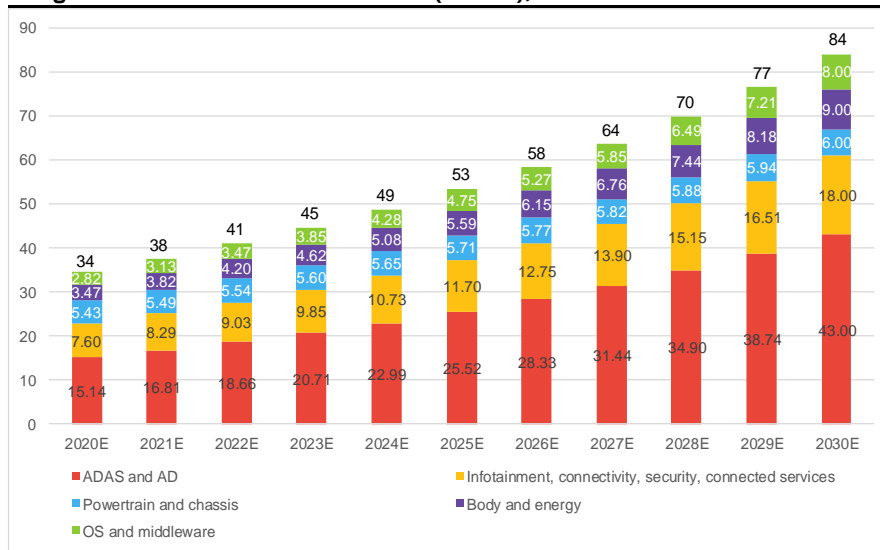
We find that the rapid growth of new digital innovation driven ICT-service companies in the past decade in Finland is partly thanks to the collapse of Nokia. Thousands of skilled ICT sector workers were ready to join new businesses and challenge the traditional ICT service providers such as Tieto and CapGemini. However, the rise of players such as Siili, Reaktor, Gofore, and Vincit, to mention a few, was so fast that around the middle of the decade the supply/demand balance changed. Consequently, in the past few years the high demand of skilled ICT sector developers has become a constrain to the sector's fastest growing companies.

We note that this is a structural challenge for the whole industry and employees actively swapping their employers causes significant inefficiency. Assuming 10% employee turnover, we estimate that this would cause around 20% inefficiency due to notice and introduction periods. We conclude that in order to succeed in rivalry and outperform the market in terms of growth, one must be able to attract the right talent in the first place. Therefore, the personnel strategy plays an important role in the sector. The other solution to the structural challenge would be consolidation of the medium sized players, something which we believe will take place in the next five-year horizon.

Automotive software

Although Siili’s revenue from automotive software development is slightly above EUR 10m (SEB estimate), the market is large and expected to grow at a double-digit rate. According to data from McKinsey, the overall market for automotive software is estimated to reach USD 84bn by 2030, and more than double over the 10-year period from 2020, when the market is estimated to be worth USD 34bn, increasing at a CAGR of around 10% in 2020-30.

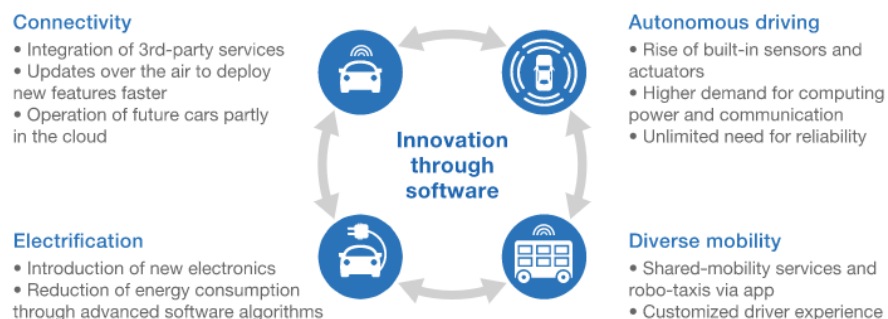
The global automotive software market (USDbn), CAGR of 10% in 2020-30



Source: McKinsey

An increasing number of electronic control units (ECUs) and electronically operated systems are likely to drive the market for automotive software. The passenger vehicle segment is expected to be the largest contributor in the automotive market, by vehicle type, according to Markets and Markets. Passenger vehicles contain a relatively greater amount of vehicle electronic systems compared with other vehicle types and are equipped with a wide range of ECUs for in-vehicle systems such as powertrain management, safety equipment, power steering, and start and stop systems. Consequently, the increasing number of passenger vehicle sales and the greater use of complex vehicle electronics will drive the demand for automotive software.

Software innovation examples

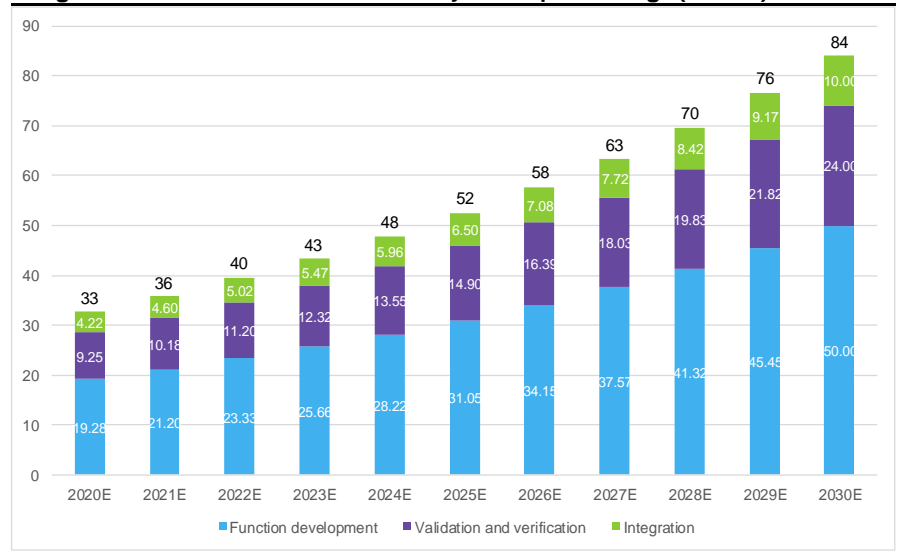


Source: SEB, McKinsey

Developing the software functionality is only the first step. The important subsequent processes are customisation for the specific vehicle platform, validation, verification, and integration. After start of production (SOP), there is the maintenance of the software. These stages increase development costs beyond base costs for function development.

Validation and verification ensure that the developed software meets specifications consistently and reliably. Validation and verification is expected to represent around 30% (USD 24bn) of the total automotive software market in 2030, according to McKinsey. This will be mostly driven by the need to verify safety-critical software, e.g., ADAS, AD, security, as well as the OS in vehicles. Automotive players need to further invest to test and validate software, which provides cross-selling synergies for Siili with its software automation testing business, Vala Group.

The global automotive software market by development stage (USDbn)

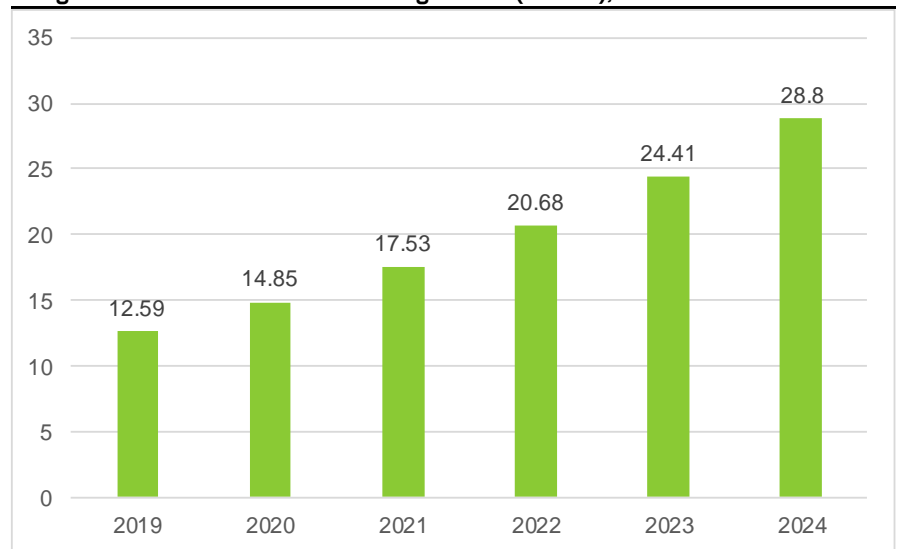


Source: McKinsey

Software automation testing

Siili Solutions’ exposure to software automations testing comes primarily through ownership in Vala Group (with external sales of 8.4% of total Siili Solutions sales in H1/19). According to data from Markets and Markets, the global software automation testing market size is expected to increase from USD 12.6bn in 2019 to USD 28.8bn by 2024, at a CAGR of 18.0%. The growth in the market is expected to be driven by the need to provide seamless end-user experience with shorter time-to-market, and adoption of AI and machine learning (ML) in quality assurance and testing.

The global software automation testing market (USDbn), CAGR of 18%



Source: Markets and Markets

The functional testing segment is expected to have a larger market size. Functional testing is performed against the business requirements of the application and is a 'black box' type of testing. This involves the complete integrated system to be tested for compliance with its specified requirements. In actual testing, testers need to verify a specific action or function of the code. Functional testing enables more applications to be tested within a shorter period. It also provides access to objects, data, communication protocols, and operating systems, allowing for a test suite with greater depth and breadth.

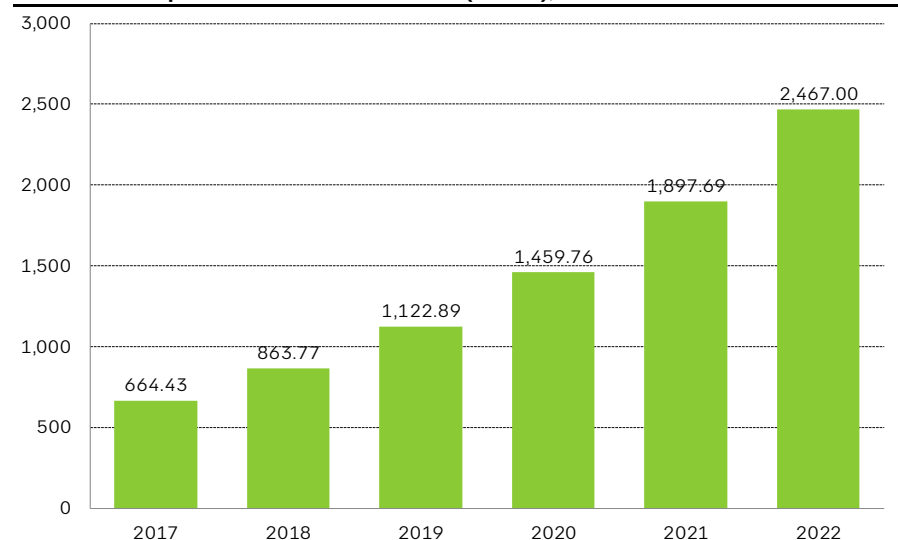
The implementation segment is expected to show the highest CAGR up to 2024, according to Markets and Markets. Implementation services help assist in test case methodology, creating customised technical controls and steering technologies, and test data analysis. These services comprise customer-specific extensions and integrations, installations, and rollout services. Moreover, implementation services are an essential aspect of executing automation testing, as it helps implement new versions of automation testing tools as well as integrate those tools with the traditional testing ecosystem.

Robotic process automation (RPA)

Although Siili holds only a minority stake in Robocorp, an RPA company which is still in its infancy, we take a look on the RPA market, which is a fast-growing segment of the global enterprise software market. According to Gartner the global RPA software market grew 63.1% in 2018 to USD 846m in terms of revenues, making it the fastest-growing segment of the global enterprise software market. And according to data provider Markets and Markets, the robotics process automation market is estimated to reach USD 2,467.0m by 2022, at a CAGR of 30.14% between 2017 and 2022.

RPA is the application of technology to configure computer software or a robot to capture and interpret existing applications for rule-based processing of transactions, manipulate data, trigger responses, and communicate with other digital systems. RPA deals with the application of smart software to perform high-volume, repetitive tasks, which are currently performed manually by humans.

Global robotic process automation market (USDm), CAGR of 30%



Source: Markets and Markets

Convergence of RPA with traditional business processes

Business functions such as contact centre outsourcing, banking, financial services and insurance (BFSI), business process outsourcing (BPO), procurement outsourcing, and human resources outsourcing (HRO) are currently showing strong growth. This generates significant market potential for RPA across a number of business sectors due to its ability to perform a range of tasks such as account opening and closing, completing requests for quotation and proposals, IT systems testing and monitoring, and handling queries in billing and customer services. RPA is useful in industries such as healthcare, BPO, banking, and insurance, as these industries follow defined, repeated, and rule-based processes. The adoption of robotic process automation in business processes has increased the number of strategic partnerships between robotic process automation market tool vendors and BPO and other service providers.

Local, Nordic, and global competition

The IT services market includes large global multinational enterprises as well as small local companies. Large companies offer a plethora of services suitable for all types of clients. Large companies have a broad workforce making it possible to take on larger projects by team size and tenure. The workforce of small companies is typically a mix of generalists and specialists. A limiting factor for the growth of small companies (which large companies also face to a degree) is the amount of talent they have at their disposal for any given project. This can tilt the scale in favour of large rivals when bidding for tender offers for sizable projects. Examples of listed global and local rivals are below.

Global/regional large cap IT service companies – Tata Consultancy (India), Infosys (India), HCL Technologies (India), Accenture (US), Cognizant (US), Capgemini (France), Atos (France), TietoEvry (Finland), Atea (Norway) and Netcompany (Denmark).

Nordic small cap IT service companies – NNIT (Denmark), Data Respons (Norway), Webstep (Norway), Bouvet (Norway), Know IT (Sweden), HiQ (Sweden), Addnode (Sweden), B3 Consulting (Sweden), Vincit (Finland), Digia (Finland) and Gofore (Finland).

Additional competition comes from internal IT teams. Although previously it was desirable to outsource IT projects to IT service companies, clients have begun to insource certain functions and want to maintain proprietary IT capacity. This is particularly true in financial services and banking. Some common drivers favouring insourcing is the need to increase control of business critical functions, potentially better customer experience, and lower than expected economic gain from outsourcing.

The key players in the automotive software market are NXP (Netherlands), BlackBerry (Canada), Renesas (Japan), Elektrobit (Germany), NVIDIA (US), Microsoft (US), Airbiquity (US), Green Hills Software (US), and Wind River (US). NXP is expected to be a dominant player in the automotive software market. NXP adopted the strategies of new product development, partnership, and merger & acquisition to retain its leading position in the automotive software market. NXP, BlackBerry, and Elektrobit are also expected to be the dominant players in the automotive software market. New product developments, expansions, collaborations, and supply contracts are the key strategies adopted by these players to gain traction in the automotive software market.

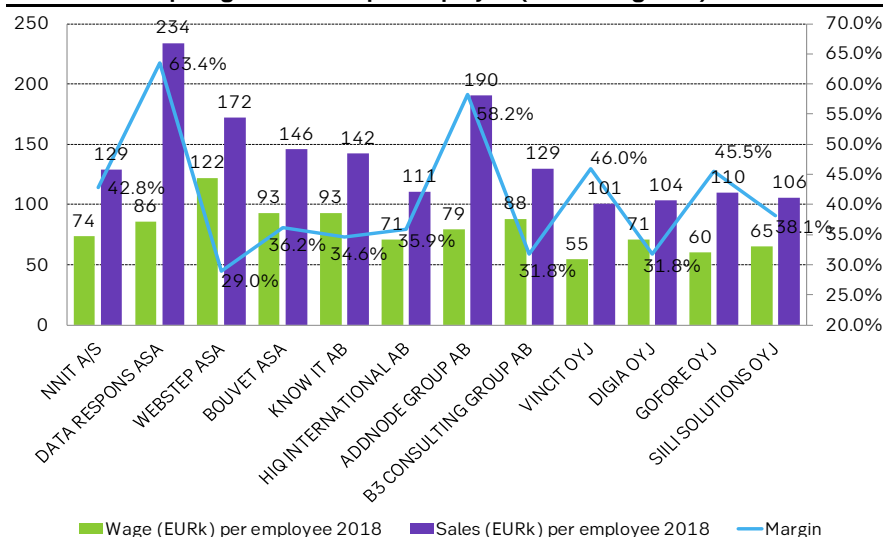
Competitor historical statistics

	Sales CAGR 2016-2018	EBITDA % 2016-2018	Number of employees Average 2016-2018	Sales per employee average 2016-2018	Sales per employee 2018
Tata Consultancy	6.40%	26.90%	386997	43500	44571
Infosys	5.70%	26.50%	204540	47102	47689
Hcl Technologies	9.70%	22.40%	113650	60553	62114
Accenture	6.80%	16.00%	420913	83970	83881
Cognizant	6.90%	20.00%	259458	50096	50328
Capgemini	3.50%	11.70%	198490	64254	63312
Atos Se	4.70%	11.50%	101233	119829	112335
Tieto	3.10%	12.70%	14151	109195	106926
Evry	-2.20%	8.10%	8646	154731	153026
Atea	5.00%	3.40%	6961	500380	504076
Netcompany Group	39.40%	26.60%	5017	38982	45829
Nnit	5.00%	17.20%	2923	132056	128789
Data Respons	12.90%	8.40%	554	240626	233939
Webstep	4.00%	11.50%	400	161468	171858
Bouvet	11.70%	10.40%	1184	143040	145797
Know It	8.40%	10.20%	1984	141249	142154
Hiq International	3.90%	12.40%	1596	113142	110545
Addnode Group	12.20%	9.40%	1355	191927	190268
B3 Consulting Group	20.10%	7.80%	461	135067	129354
Vincit	18.60%	13.60%	433	97622	100958
Digia	11.50%	6.60%	1036	94900	103625
Gofore	76.60%	15.50%	459	70407	110199
Siili Solutions	18.90%	8.60%	547	107752	105596

Source: SEB, Bloomberg

In the chart below we have described Nordic listed peers' wage per employee and sales per employee (based on Bloomberg data). On average, Nordic wage per employee is EUR 80,000 per year. It is noteworthy that among Finnish listed companies wage per employee (EUR 63,000) is 21% lower than the Nordic peer average. The highest wage per employee can be found among Norwegian companies.

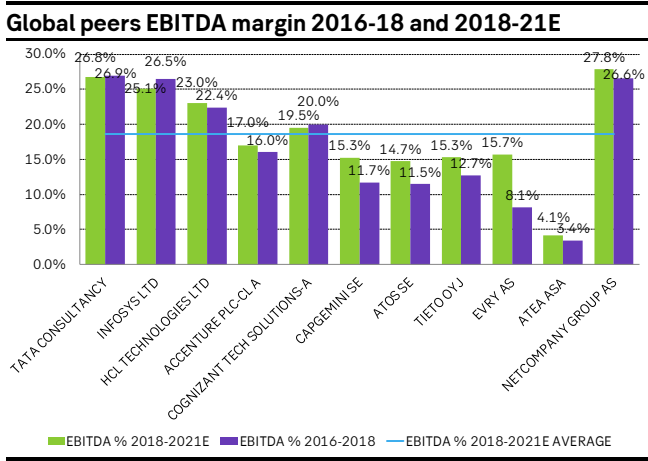
Nordic small cap wages and sales per employee (Bloomberg data)



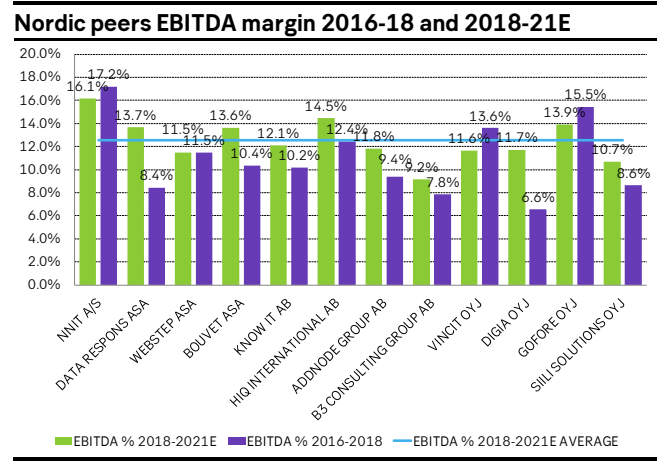
Source: SEB, Use of subcontractors may affect the comparability

Finnish companies' average sales per employee (EUR 105,000) is 32% lower than the Nordic peer group (EUR 139,000). In addition to pricing the difference can be explained by utilisation rate. The higher the utilisation rate the more billable hours each expert produces and the higher the sales per employee. The use of subcontractors distorts this comparison. The companies that use hired help extensively can boast high sales per employee, while keeping their own workforce low. However, this should be visible in lower profitability, which is described in the chart below where we have included global peers.

The average EBITDA margin in 2016-2018 for global peers was 16.9% vs. Nordic peers at 11.0%. In the global peer group Indian companies Tata, Infosys, and HCL lead the peer group due to their lower employee costs. In the Nordic peer group, there is fair bit of variation. Data Respons and Addnode, whose sales per employee were the highest, have had relatively lower profitability caused by the use of subcontractors. The Finnish small cap peer EBITDA margin average was in-line with Nordic peers between 2016 and 2018, although differences have been significant.

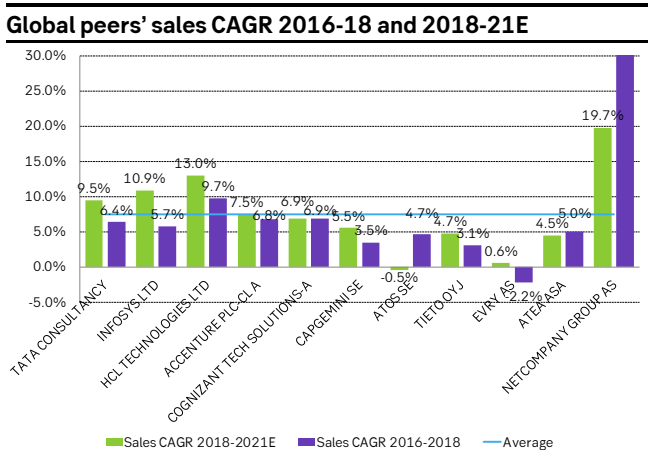


Source: SEB, Bloomberg

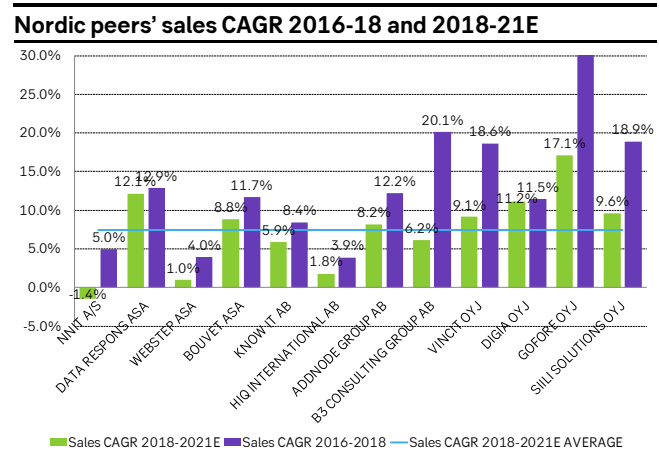


Source: SEB, Bloomberg

On sales growth, the consensus view (Bloomberg) is that the IT services market rate of growth remains high for 2018-2021. The expected sales CAGR in 2018-2021 for both Nordic companies and their large global counterparts is 7.5%. In the Nordic peer group, historical sales CAGRs have been greater than what is expected for 2018-2021. There has been a lot of consolidation in the industry because it has been easier to buy a team of experts than try and find them from the labour market. Particularly experienced developers and designers are highly sought after.



Source: SEB, Bloomberg



Source: SEB, Bloomberg

Siili's position in the markets

IT services companies differ by size, scale, and services. Siili positions as a medium-size company in the Finnish IT service market. The main bulk of its sales exposure is Finland and less than 10% international. Siili is large enough to take in big deals which require a wide range of knowhow and experience. On the other hand, Siili can serve smaller client accounts which require specialist skills. The company is agile and small enough to adopt its services to changing customer and market needs.

Siili's wage per employee is on par with its Finnish peers. This means that the company does not lose in competition because of higher wage costs. On sales per employee there is no large difference vs. Finnish peers, but the company does trail its Nordic peers. Siili has a large part of its sales from generalist IT services, while the specialist IT services (part of Portfolio) forms a much smaller part of sales. The more specialised the skillset required in a project, the larger the price tag the company can set. In our view, Siili can close the gap in sales per employee by focusing on staff utilisation with refreshed organisation structure and tilting the sales mix away from Core and towards Portfolio, which is something the company is strategically aiming to do.

We believe Siili can outpace market growth. Siili will increasingly improve the diversity (by experience) of its work force and hire more talent with a specialist skill set. We believe a small local operator can attract and maintain workforce which enables innovation.

Siili – Growth & value creation

Taking market share in a growing market

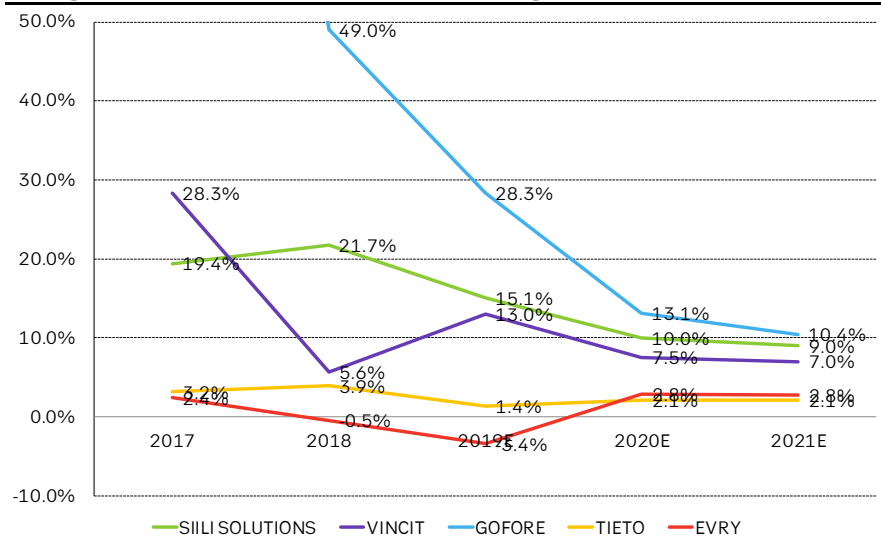
A growing need for digitalised solutions

In the rapidly digitalising world, the companies are experiencing increasing pressure to develop their IT platforms and services. Consequently, the digital services demand continues to lead the growth in IT services with 5-10% annual growth in the Finnish market. We find that the medium-sized companies in the Finnish IT services market can continue to outgrow the market. Siili is well positioned in this respect and the targeted 10% organic growth target is achievable in the foreseeable future, in our view.

Large rivals lack agility, small ones scale and access - Siili in the sweet spot

To efficiently produce digitalised solutions, we find that the service provider must be agile, meaning that the organisation must be able to adopt to the continuously developing technologies and customer needs. We find that seamless cooperation in the internal and external teams is something in which the medium size operators with local teams can outperform the large rivals, who trust more on offshoring in their production. Furthermore, and perhaps most importantly, the innovative smaller players attract the most skilled workforce. Consequently, we find that Siili, and its closest peers, will continue to gain market share from the large rivals.

Sales growth of selected Nordic mid-sized and large IT service providers



Source: SEB, Bloomberg

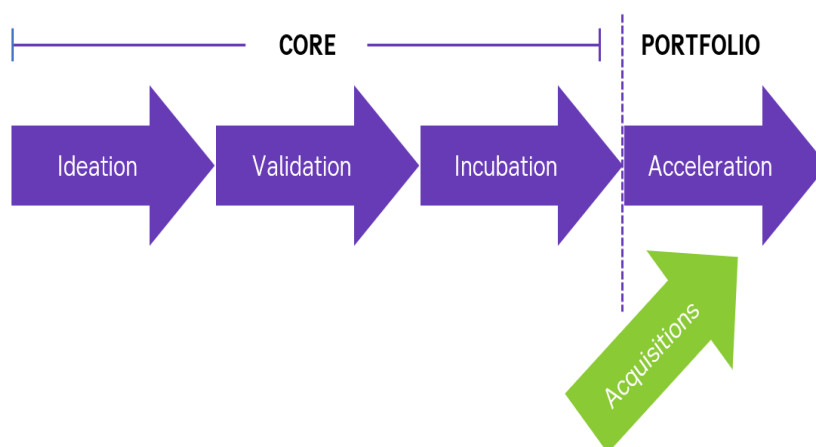
When comparing Siili with the smaller companies, we note that Siili has sufficient size to take-in larger deals which require a wider range of capabilities in different technologies and methods. Siili is large enough to serve the largest companies in Finland, while the small players are not considered qualified for the tenders. Therefore, we find that the small companies, unless they have unique expertise, are likely to remain small as long as they lose their key employees to rivals or are acquired.

The Core/Portfolio model hides value

Siili's focus in its November CMD was on the renewed Core/Portfolio business model. In short, the parent company and core business form a platform for portfolio businesses, of which growth can be accelerated by funding, market access, and administrative services. Eventually, the portfolio companies can be divested if such move is seen value creative for the shareholders. Consequently, Siili acts as a holding company and venture capital hybrid.

We argue that having a portfolio of several fast-growing companies or early stage business units of which some have lower profitability hides value in Siili. For example, we estimate that Siili Auto erodes the group's profitability, but if the company were to be divested the exit EV/sales multiple would be clearly higher than Siili's current multiple. See our SOTP valuation on pages 40-41.

New businesses path to portfolio



Source: Siili Solutions

In addition to cash flow generation Siili Core fosters portfolio candidates

Siili's core business produces healthy and growing cash flow thanks to increasing demand for digitalised services and is thus seen as the foundation of Siili's investment case. The other role of the Core business is to actively breed and accelerate new businesses for Portfolio. The company has structured its own process to foster, validate, and commercialise new units to portfolio. To become a portfolio company the business must have specific knowhow, its own customer base, the ability to internationalise and entrepreneurship of Siili employees. Siili Auto is the largest proof of concept so far. In just a few years, Siili was able to raise Robocorp (minority holding), which raised USD 5.6m in Silicon Valley capital, only nine months after founding. According to the company there are several seeds of new portfolio companies in the core business.

Parent and core to support the portfolio growth

The common challenge of small IT service and technology company owes to lack of resources (capital, personnel, and administrative) and market access. Within Siili Group the portfolio companies do not have these issues which typically cause some companies to fail. Siili provides all administrative support including marketing and a common go-to-market model. In addition, the parent company can fund the business organically or support in finding external finance.

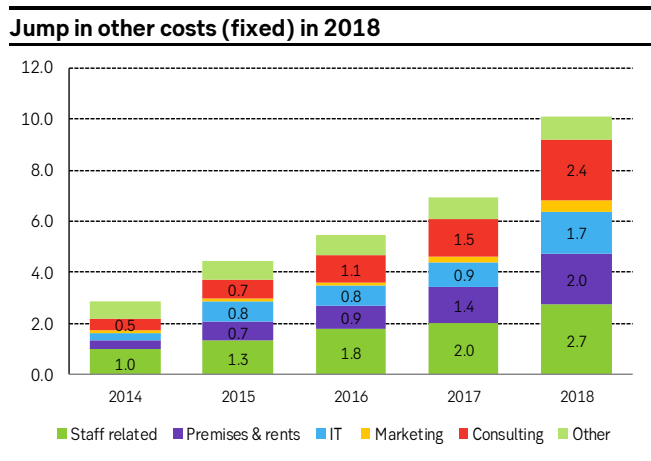
Acquired companies can also be accelerated

Siili can also create value in newly acquired portfolio companies. Compared with typical private equity, Siili can exploit the synergies between the acquired company and Siili’s other businesses. Furthermore, similar to self-born portfolio companies, the acquired companies can exploit Siili’s market access and lead generation in addition to admin synergies. So far, the only example is Vala Group and comparable figures are not available yet. But in the recent CMD Vala CEO stated that the decision to join forces with Siili has proven to be the right decision.

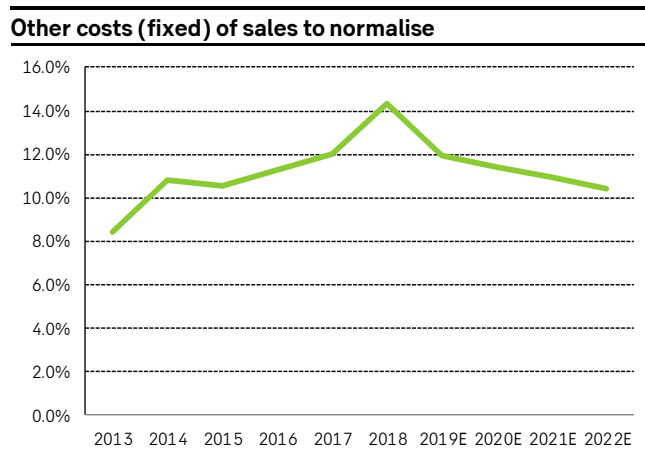
Improving earnings momentum

Growth and operational leverage after the 2018 hiccup

After weakened profitability in 2018 we find that Siili will turn its margins towards the historical levels. In 2018 the company had certain one-off fixed costs meaning the company should enjoy operational leverage as the organic sales growth continues at around double-digit rates. This is supported by the evidence from H1/19 when the other operating costs decreased by -3%.



Source: SEB



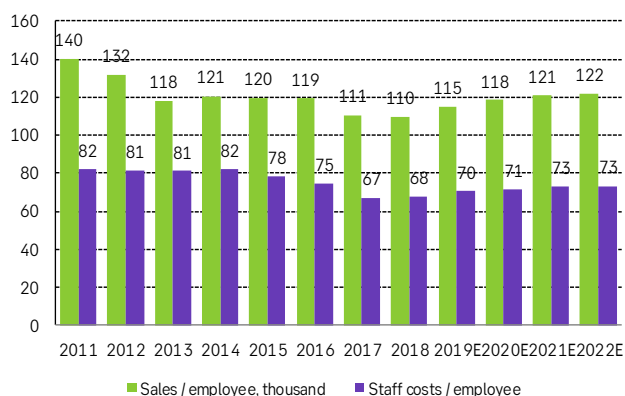
Source: SEB

Higher utilisation rate on more flexible operating model

At the end of 2018 Siili transformed its operational model, which should allow a more flexible use of its workforce. Historically, Siili allocated specific staff to projects. However, the company is moving towards selling the end product. This means that the company is moving from experienced teams to teams with more diversity by experience. According to Siili, the best teams contain one experienced team member supported by several junior members. This way the project price tag for clients is lower, but Siili can get a better margin. In the past, a large proportion of Siili’s workforce were generalists with a lot of experience. However, Siili now intends to hire more specialists and have a more balanced experience pyramid.

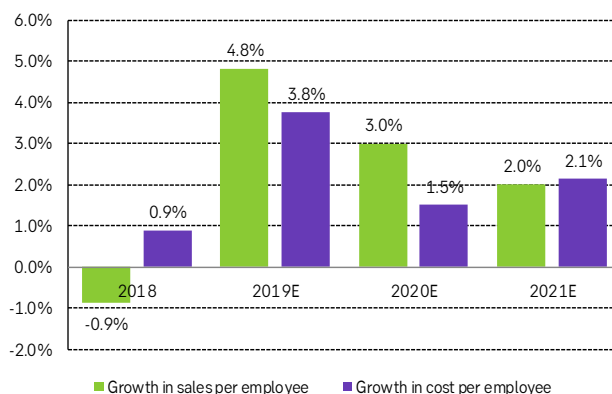
Hence, the company should be able to deliver higher growth on more moderate personnel growth. Siili can also continue to mitigate the wage inflation by further lowering the average age of its employees. We expect that the sales per employee, a key profitability driver, should gradually decline as the organic sales growth continues.

Wage and sales per employee



Source: SEB

Increasing utilization to outpace wage inflation

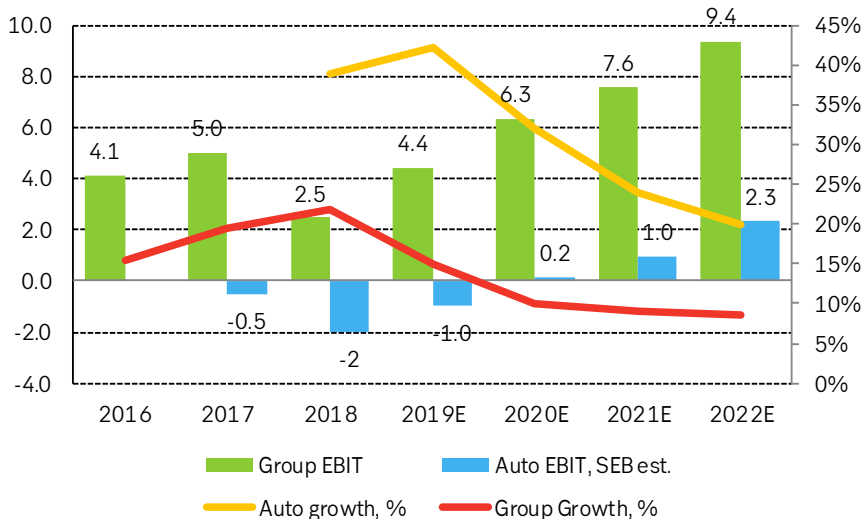


Source: SEB

Siili Auto towards positive figures on hefty sales growth

Siili has made significant efforts in its promising Auto operations, which we think is still in losses. However, as the efforts in the organisation and R&D pays off, and growth continues, we find that the unit will turn to profits. In fact, although the company has not disclosed the profitability of Auto, we believe if the strong growth rate (Q1/19: 49%) continues we find that improving profitability in Auto could account for most of the medium-term EBIT improvement.

We estimate Auto weighs group EBIT (LHS) while growth remains high (RHS)



Source: SEB

Value creative M&A

Seeking a good fit in teams, capabilities, and synergies

Siili has been acquiring smaller companies which bring additional capabilities, such as 3D and digital design expertise, to the group. The table below summarises acquisitions by Siili since 2013. The company has acquired specialist teams, expanding the company's knowhow and service capabilities in new fields. All but Vala Group have been merged into Siili. Vala Group is the only one where the founders still own part of the business and the company operates as an independent unit.

Past acquisitions

	Date of acquisition	Last FY sales	Profitability	No. of employees	Field of expertise	Segment	Country of ops	Transaction price	Realized earn-out	Ownership
Vala Group	Aug-18	EUR 5.8m (2017)	EBIT EUR 1.4m (2017)	80	Robotic Process Automation	Portfolio	Finland	EUR 7.2m	na.	60%
Comia Software	Dec-17	EUR 0.4m (2016)	EBITDA 0.07m (2016)	7	Software development	Core	Finland	EUR 0.3m	na.	100%
Stormbit	May-17	EUR 0.4m (2016)	EBITDA EUR 0.04m (2016)	13	3D/AR/VR	Portfolio	Finland	EUR 0.15m	EUR 0.03m	100%
Omenia	May-17	EUR 1.9m (2016)	EBITDA EUR 0.3m (2016)	28	Automating software development process	Core	Finland	EUR 2.1m	EUR 1.6m	100%
Avaus Consulting	Sep-14	EUR 8.9m (2014)	EBITDA EUR 1.8m (2014)	72	IT Consulting	Core	Finland, Poland	EUR 3.9m	EUR 5.0m	100%
Codebakers	Oct-14	EUR 3.3m (2014)	EBITDA EUR 0.3m (2014)	34	CRM systems, software testing	Core	Finland	EUR 0.8m	EUR 1.0m	100%
Comvise	Jul-13	EUR 1.8m (2013)	EBITDA EUR 0.6m (2013)	20	Software development	Core	Finland	EUR 0.8m	na.	100%
Fusion	Jun-13	EUR 0.8m (2013)	na.	8	UX design	Core	Finland	na	na.	100%

Source: SEB, Siili Solutions

Ideally the acquired team (company) size would be from 20 to 50 persons. In addition, the team must be a good fit to Siili's portfolio, with a strong culture and knowhow around a specific theme. Siili needs to see that it has the ability to boost the team size up to 150 to 200 persons through more efficient go-to-market. Through Siili the team gets access and knowhow to large (and international) clients and a more competitive edge among public clients. In some cases, the company may expand geographically and strengthen its position within certain customer groups.

Consequently, given that the acquired companies are relatively small in size we note that the main synergies lie on the sales side rather than on the cost side. In our view this is a reasonable strategy as long as the key players can be motivated to stay in the company.

Shareholder value via multiples arbitrage

The multiples in non-listed transactions are typically lower than the same sector public companies' multiples. We find that Siili has the potential to create immediate value by acquiring smaller private companies with lower multiples. However, we note that Siili's current multiples are relatively low following the declined earnings in 2018 and the expectations on the sale side have increased during the past few years. Consequently, we flag the potential but find that such deals are more likely to materialise when Siili's valuation is higher.

Shareholder value sensitivity to deal EV and EV/EBIT vs. Siili's EV/EBIT multiple

		Deal EV, EURm							
		5.0	10.0	15.0	20.0	25.0	30.0	35.0	40.0
Deal EV/EBIT multiple vs. Siili	-5x	5%	11%	16%	22%	27%	32%	38%	43%
	-4x	4%	8%	12%	15%	19%	23%	27%	31%
	-3x	3%	5%	8%	10%	13%	16%	18%	21%
	-2x	2%	3%	5%	6%	8%	9%	11%	13%
	-1x	1%	1%	2%	3%	4%	4%	5%	6%
	0x	0%	0%	0%	0%	0%	0%	0%	0%
	+1x	-1%	-1%	-2%	-2%	-3%	-4%	-4%	-5%
	+2x	-1%	-2%	-4%	-5%	-6%	-7%	-8%	-9%
	+3x	-2%	-3%	-5%	-7%	-8%	-10%	-12%	-13%
	+4x	-8%	-16%	-24%	-32%	-40%	-48%	-56%	-64%
	+5x	-8%	-16%	-24%	-33%	-41%	-49%	-57%	-65%

Source: SEB

Siili's largest transactions - EV/EBIT multiples

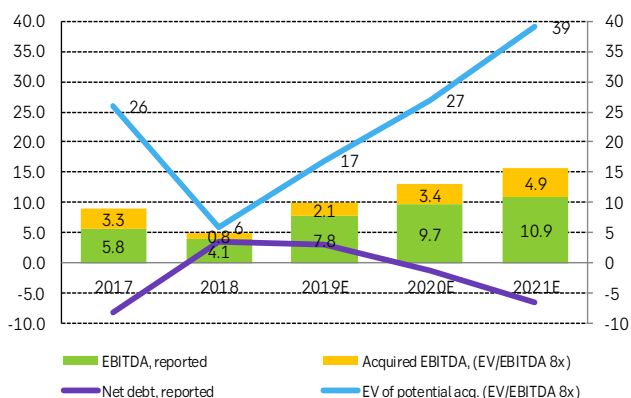
	EV, inc. earn out	Year	EBIT	Year	EV/EBIT
VALA Group	12	2018	1.4	2018	8.6
Omenia	3.7	2017	0.9	2017	4.1
Avas consulting	8.9	2014	1.7	2014	5.3

Source: SEB

Current purchasing power

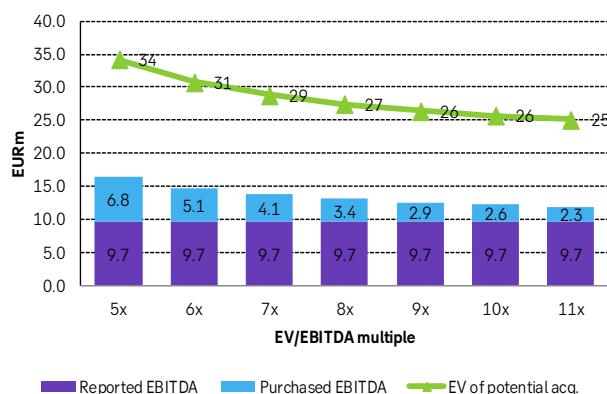
Siili's financial target is to have NIBD/EBITDA below 2x, which in our view is not overly geared given the track of stable profitability. We believe that traditional bank funding should be available for such levels. With 2019 financial performance and position this would imply gearing of around 90%. Consequently, with our 2020 estimates we calculate that the company has acquisition potential of EUR 25-34m, depending on the EV/EBITDA multiple in the hypothetical acquisition. At the end of 2019, we calculate that the purchasing power with multiples of 8x is EUR 17m. If the company considers larger acquisitions, we believe the company would use its own share capital and we find that the company remains slightly too small to raise bond funding with enough attractive terms. However, we think that Siili is not currently considering large acquisitions which would require the use of its own share capital given the relatively low multiples.

Acquisition power, (NIBD/EBITDA 2x, EV/EBITDA 8x)



Source: SEB

2020E acquisition power sensitivity to EV/EBITDA



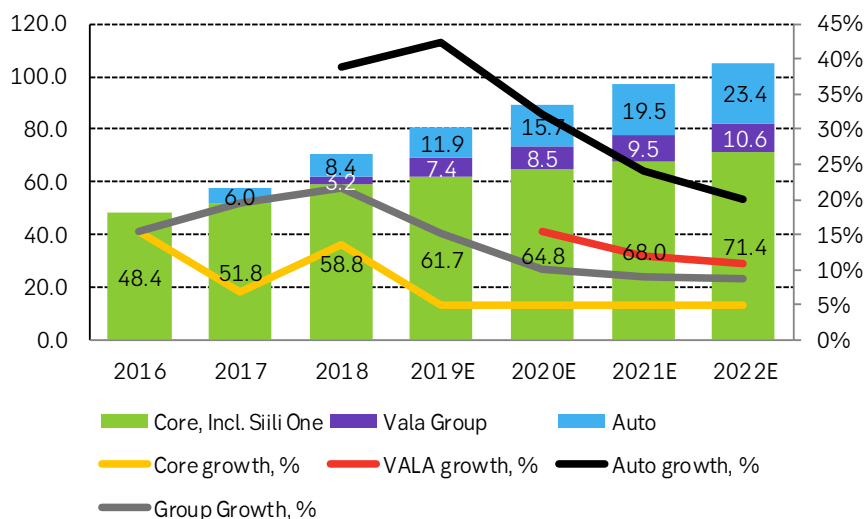
Source: SEB

Financial forecasts

Double-digit growth driven by Auto

We expect Siili's CAGR to be 11% between 2018 and 2022, driven primarily by robust growth in Siili Auto, Vala Group, and other new potential portfolio units as well as a steady baseline growth in Core and Siili One. We estimate that Siili Auto could close to double its sales from 2019 by 2022. We expect Vala Group's rapid growth rate (2015-2018 CAGR of 41%) to moderate to 15.4% and 12.0% in the coming two years. Our estimates imply that Siili's core operations would increase revenues by around 5% per year, topping the IT services market growth by a few percentage points. However, growth may fluctuate depending on the timing of larger deals. We expect Siili's sales to grow 10% and 9% in 2020 and 2021, respectively.

Siili's sales (EURm) and growth (%) (historical Auto & Vala are SEB estimates)



Source: SEB

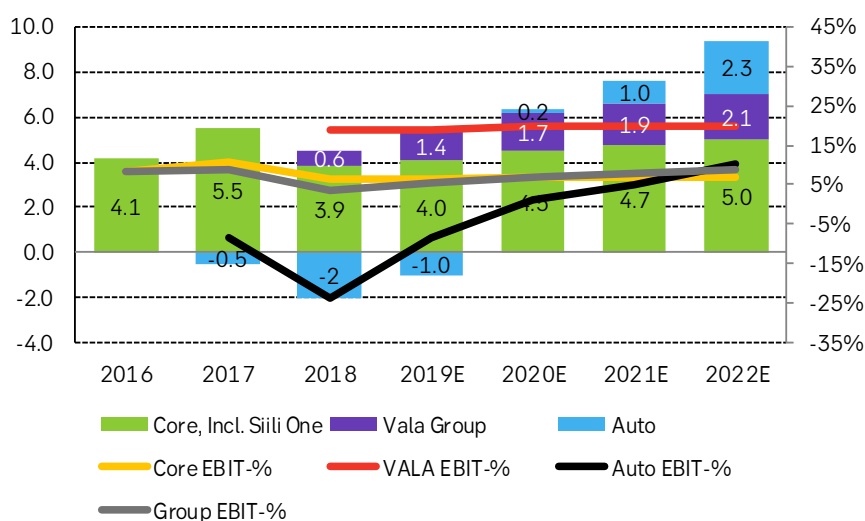
Margin rises as Auto investment pays off

We expect Siili to return to its historical EBITDA margin (2014-2017 average 10%) by 2020 and expand beyond this in 2021. The company's profitability suffered in 2018 as the company increased its efforts in the automotive business and implemented certain organisational developments and changes. We treat the weak 2018 as a one-off year in terms of profitability.

In our view, the main driver for improving profitability lies in foreign operations (automotive business), which we believe is currently run with relatively high fixed costs due to ramp-up phase and high R&D costs. As the top line increases, we find that the unit should reach breakeven by 2020. The organisational changes during 2018 should allow the company to improve its operational efficiency, i.e. the utilisation of the workforce. We expect Siili's sales per employee to increase from EUR 110,000 in 2018 to EUR 118,000 in 2020.

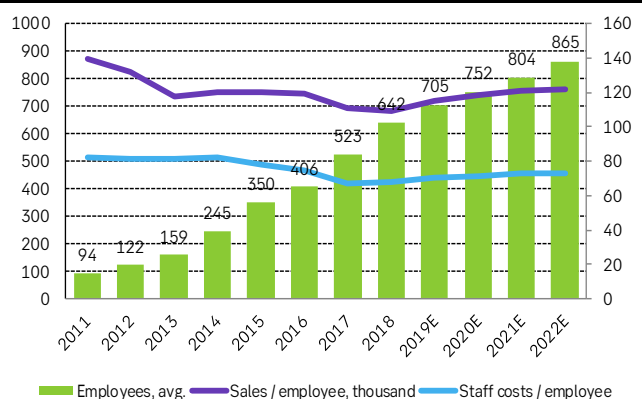
We expect Siili's EBITA margin to be 8.8% in 2020 and 9.3% in 2021. As there should not be major changes in the depreciation or net financials, we estimate the EPS to rise to EUR 0.70 and 0.85 in 2020 and 2021, respectively. EPS CARG would then equal to 11% between 2017 and 2021.

Siili EBIT (EURm) and EBIT margin (historical Auto & Vala are SEB estimates)



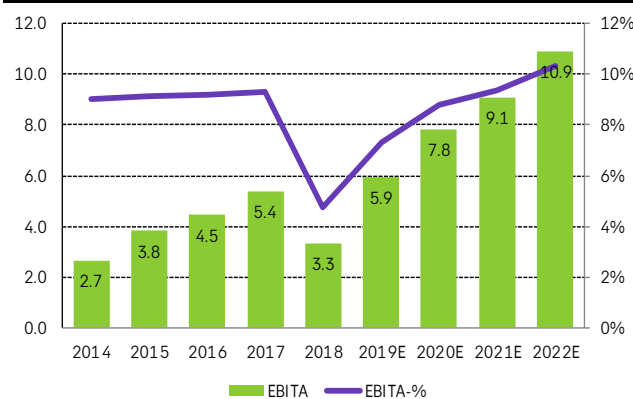
Source: SEB

Number of personnel & key KPIs



Source: SEB

EBITA and EBITA-%

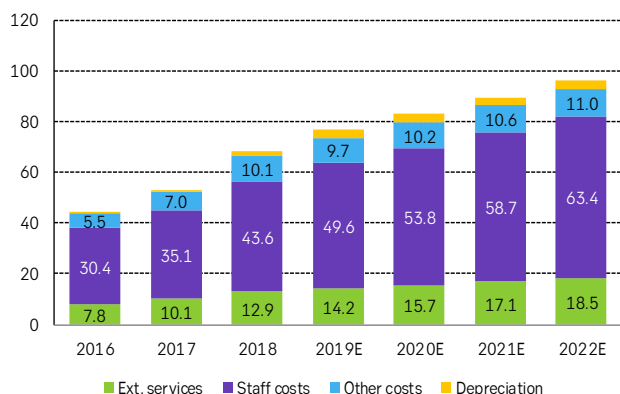


Source: SEB

Costs growth below the top line growth

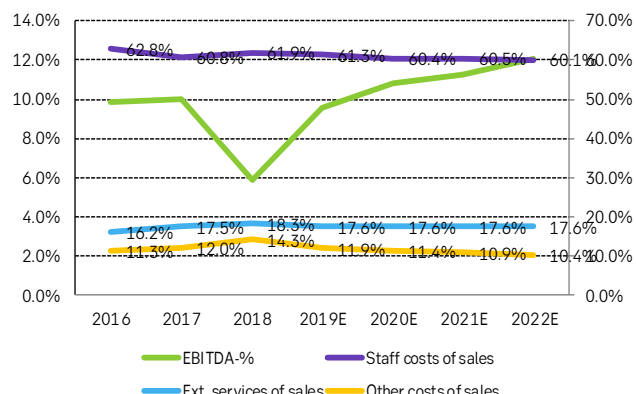
As explained above we find that Siili will be able to improve its internal efficiency meaning higher sales per employee. We estimate that personnel costs as a percentage of sales will decline from 61.9% in 2018 to 60.4% in 2020 and sales per employee should increase as efficiency improves. For external services, which are mainly outsourced personnel costs, we expect the cost of sales to remain broadly unchanged. For other costs, we expect the growth to be clearly lower than the sales growth. Although a large share of these costs are personnel related, we note that the remaining share of the costs should show limited inflation-linked growth and certain items were elevated in 2018.

Cost estimates



Source: SEB

Costs of sales (RHS) and EBITDA margin (LHS)



Source: SEB

Sensitivity

In the following tables we show Siili's EPS sensitivity to sales growth and EBITA margin. We find that 1pp in EBITA margin implies EUR 0.1 change in EPS and 2.5% higher sales would mean EUR 0.02 higher EPS.

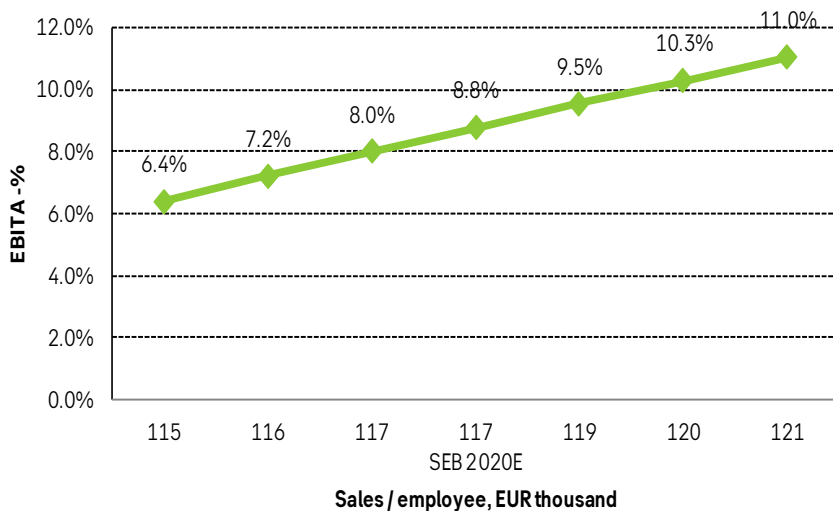
Siili EPS sensitivity to EBITA-% and sales growth

		EBITDA margin				
		6.8%	7.8%	8.8%	9.8%	10.8%
Sales growth	5.0%	0.46	0.56	0.66	0.76	0.86
	7.5%	0.48	0.58	0.68	0.78	0.89
	SEB 2020E 10.0%	0.50	0.60	0.70	0.80	0.91
	12.5%	0.52	0.62	0.72	0.82	0.93
	15.0%	0.54	0.64	0.74	0.84	0.95

Source: SEB

In terms of workforce efficiency, we calculate that if Siili is able to increase its invoicing per employee by EUR 1,000/yr, the EBITA margin should improve by 0.8pp. Therefore, the EPS sensitivity to workforce utilisation can be considered relatively high.

Siili EBITA margin sensitivity to sales/employee (EUR 000/year)



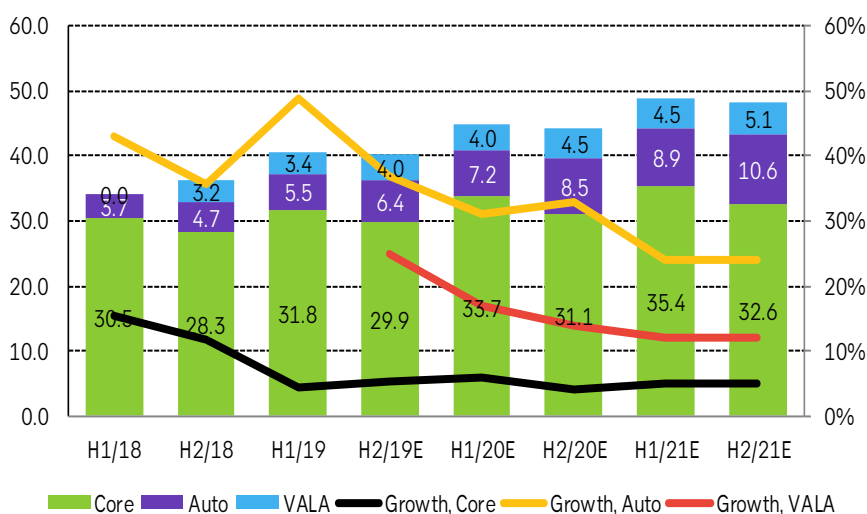
Source: SEB

FY 2019 and H2/19 forecasts

Sales

We believe Siili's H2/19E sales will be EUR 40.3m, translating into full year 2019E sales of EUR 81.0m (guidance: EUR 75-85m). We expect Siili Group H2/19 sales growth of 11.3% to be composed of Portfolio (Vala & Auto) growth of 32% and Core growth of 5.5%. Within Portfolio both Siili Auto and Vala Group grow strongly at rates of 37% and 25%, respectively. In our estimates, we have included Siili One in Core as we expect the unit to grow at a similar rate to Core. Our base idea for Siili Core is that it grows at a rate equal to slightly above that of the Finnish IT service market growth of 4% per year.

Semi-annual sales and sales growth estimates

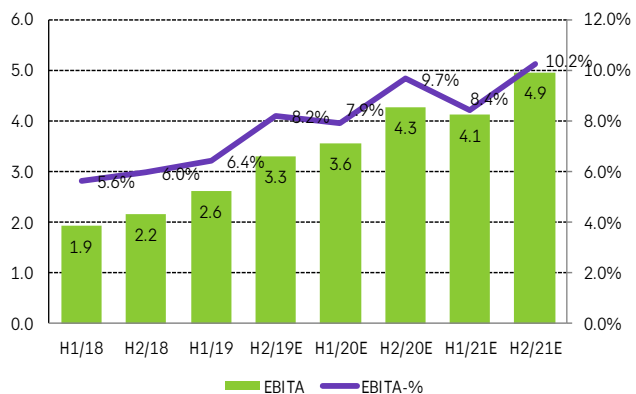


Source: SEB

Profitability

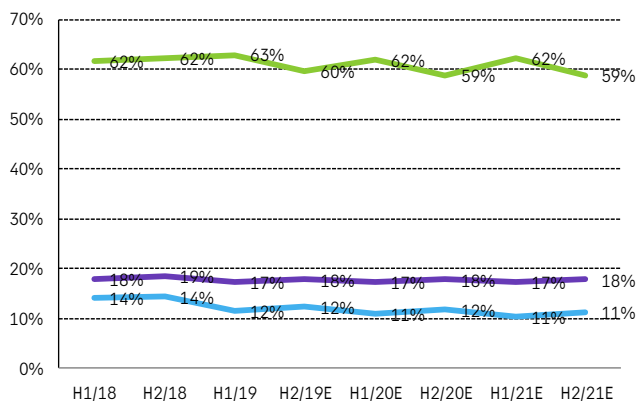
Our H2/19E clean EBITDA estimate is EUR 4.2m corresponding to clean EBITDA margin of 10.5% (vs. 7% in H2/18). The improvement in profitability originates mainly from lower estimated personnel expenses as a share of sales or improved utilisation. We estimate full year 2019 clean EBITDA to total EUR 7.8m (guidance: EUR 6.5-8.5m) and clean EBITDA margin of 9.6%. This is a significant improvement from 2018 when the clean EBITDA margin was 5.8%. We believe the acquisition of Vala Group in 2018 and organisational restructuring took a toll on utilisation in 2018. All this is behind and we believe that Siili Auto is on a gradual improvement path leading to profitable numbers in the near future.

Semi-annual EBITA (EURm) and EBITA margin (%)



Source: SEB

Costs of sales, semi-annual



Source: SEB

Valuation

Fair value range of EUR 11-13

We derive a fair value range of EUR 11-13 per share for Siili. In our valuation approach we use a DCF valuation method and SOTP valuation using appropriate peer group valuation multiples for each business unit.

Valuation range summary					
Method	Multiple range	Fair Value (EUR)			
		low	high	low upside	high upside
Peer, EV/Sales	0.8x - 1.0x	10.0	13.0	9.9%	42.9%
Peer, EV/EBITDA	7.1x - 9.3x	10.0	13.0	9.9%	42.9%
SOTP		10.9	13.9	20.0%	52.7%
DCF		12.0	14.0	31.9%	53.8%
Average		11.0	13.6	13.3%	48.1%
Current share price (EUR)		9.1			
Upside potential (%)		13.3% -48.1%			

Source: SEB

DCF valuation mid-point at EUR 13

In our DCF valuation we assume a WACC of 9.5% for Siili. We note that the company is relatively small, and the low liquidity of the shares needs to be priced in. However, the historically stable profitability and limited balance sheet and business risks suggest a lower WACC. We note that Siili uses a WACC of 12% in its impairment tests for goodwill related to Vala Group and Siili Solutions. However, we note that the risks for the estimated high growth rate of those units are higher than for example Siili One, which is considered low risk personnel outsourcing.

In our view, an appropriate growth rate for the next five years is on average 8% with a declining profile. For years five to 10 we use growth rates from 7% (2024) to 5% (2028). For terminal growth we expect 2%. Our base assumption is that Siili can gradually improve its EBITDA margin from 9.6% in 2019 to 12% in 2023. Using these assumptions, we derive a DCF share fair value of EUR 13. We note that the current share valuation implies WACC of over 13% with our estimates. From another perspective, with our WACC the current share valuation implies 2% lower growth expectation and 2pp lower EBITDA margin (see sensitivity table). Our indicative DCF valuation mid-point is EUR 13 and we derive a range of EUR 12-14.

DCF valuation summary			
DCF valuation (EURm)		Weighted average cost of capital (%)	
NPV of FCF in explicit forecast period	52	Risk free interest rate	2.5
NPV of continuing value	42	Risk premium	7.0
Value of operation	94	Cost of equity	9.5
Net debt	3	After tax cost of debt	1.8
Share issue/buy-back in forecast period	-		
Value of associated companies	-	WACC	9.5
Value of minority shareholders' equity	-		
Value of marketable assets	-	Assumptions	
DCF value of equity	91	Number of forecast years	10
DCF value per share (EUR)	13	EBIT margin - steady state (%)	8.1
Current share price (EUR)	9.02	EBIT multiple - steady state (x)	7.5
DCF performance potential (%)	45	Continuing value (% of NPV)	44.8

Source: SEB

DCF sensitivity

		Cost of equity (%)				
		8.5	9.0	9.5	10.0	10.5
Equity capital weight (%)	80	18	17	16	15	15
	90	16	15	14	14	13
	100	14	14	13	12	12
	100	14	14	13	12	12
	100	14	14	13	12	12
		Absolute change in EBITDA margin - all years				
		-2%	-1%	0	+1%	+2%
Abs. change in sales growth - all years	-2%	9	11	12	13	14
	-1%	10	11	12	13	15
	0	10	12	13	14	15
	+1%	11	12	14	15	16
	+2%	11	13	14	16	17

Source: SEB

DCF assumption details

(EURm)	2019E	2020E	2021E	2022E	2023E	Average year 6	Average year 7-8	Average year 9-10
Sales growth (%)	15.1	10.0	9.0	9.0	7.0	7.0	6.3	5.3
EBITDA margin (%)	9.6	10.8	11.2	11.6	11.8	12.0	12.2	11.9
EBIT margin (%)	5.5	7.1	7.8	8.2	8.4	8.6	8.8	8.4
Gross capital expenditures as % of sales	3.9	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Working capital as % of sales	(2.9)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Sales	81	89	97	106	113	121	133	148
Depreciation	(3)	(3)	(3)	(4)	(4)	(4)	(5)	(5)
Intangibles amortisation	0	0	0	0	0	0	0	0
EBIT	4	6	8	9	9	10	12	12
Taxes on EBIT	(1)	(2)	(2)	(3)	(3)	(3)	(4)	(4)
Increase in deferred taxes	0	0	0	0	0	0	0	0
NOPLAT	3	4	5	6	7	7	8	9
Gross capital expenditure	(3)	(2)	(2)	(2)	(2)	(2)	(3)	(3)
Increase in working capital	1	0	0	0	0	0	0	0
Free cash flow	4	6	7	8	8	9	10	11
ROIC (%)	9.0	13.1	15.6	18.8	21.8	25.4	32.0	41.2
ROIC-WACC (%)	(0.5)	3.6	6.1	9.3	12.3	16.0	22.6	31.7
Share of total net present value (%)	0.0	6.0	6.3	6.5	6.4	6.4	12.4	11.2

Source: SEB

SOTP – Auto hides value

In our sum-of-the-parts valuation we assess the company's business units separately and use appropriate earnings multiple for each unit. Siili does not disclose its business units' profitability, but we have assumed that Siili Auto has been loss-making (due to heavy efforts for future growth) and the company reports higher than group average EBIT margin in Vala Group.

As we expect Auto to reach breakeven by 2020, we value the business by using EV/sales multiples. In our view, the multiples can be benchmarked with automotive software providers, such as Qt Group or fast-growing IT service providers such as Netcompany. However, these companies trade with extremely high multiples. We note that Qt has its own software product while Netcompany shows high profitability, something which Siili Auto lacks. Therefore, we use relatively moderate EV/Sales multiple of 1.0-1.5x for Siili Auto at this point. We note that once the unit reaches positive figures a higher valuation could be justified.

Peer group and multiples comparison

Global and Nordic peer groups vs. Siili Solutions

	Ccy	Price (local)	Mkt Cap (EURm)	2019E	PER (x) 2020E	2021E	2019E	EV/Sales 2020E	2021E	Exp. Sales Growth		
										2019E	2020E	2021E
Global / Regional large IT Service cos												
Tata Consultancy Svcs Ltd	INR	2052.9	97432.4	23.5	21.5	19.7	4.7	4.3	3.9	7.5%	9.2%	9.1%
Infosys Ltd	INR	695.2	37447.4	18.0	16.1	14.7	3.0	2.7	2.4	10.0%	9.9%	9.6%
Hcl Technologies Ltd	INR	1131.1	19409.6	14.7	13.2	12.1	2.1	1.9	1.6	16.3%	10.7%	8.8%
Accenture Plc-Cl A	USD	201.3	116299.8	25.8	23.5	21.6	2.7	2.5	2.3	6.2%	7.0%	7.6%
Cognizant Tech Solutions-A	USD	64.2	31915.6	16.2	15.6	14.0	1.9	1.8	1.8	3.7%	3.5%	6.0%
Capgemini Se	EUR	108.2	18101.2	17.1	15.4	14.2	1.3	1.2	1.1	7.2%	4.7%	4.7%
Atos Se	EUR	77.6	8475.1	9.3	8.6	8.1	1.1	1.0	0.9	-5.6%	2.2%	2.3%
Tieto Oyj	EUR	25.9	1922.4	14.2	13.6	13.0	1.3	1.2	1.2	1.3%	10.7%	2.3%
Evry As	NOK	36.6	1341.7	13.8	12.4	11.6	1.4	1.4	1.3	1.6%	2.8%	2.8%
Atea Asa	NOK	127.6	1385.8	23.5	18.1	15.8	0.4	0.4	0.4	7.9%	6.6%	4.9%
Netcompany Group As	DKK	286.2	1915.5	31.8	24.6	20.2	6.1	4.9	4.0	19.6%	21.1%	18.8%
Average				18.9	16.6	15.0	2.4	2.1	1.9	6.9%	8.0%	7.0%
Median				17.1	15.6	14.2	1.9	1.8	1.6	7.2%	7.0%	6.0%
Nordic small IT Service cos												
Nnit A/S	DKK	100.0	334.6	12.9	14.4	13.6	0.9	0.9	0.8	1.6%	-4.6%	-0.9%
Data Respons Asa	NOK	42.3	316.2	21.3	18.8	17.4	1.7	1.5	1.5	25.5%	12.8%	6.1%
Webstep Asa	NOK	24.4	65.1	13.7	12.6	11.8	1.0	1.0	1.0	0.2%	5.4%	3.5%
Bouvet Asa	NOK	360.0	365.3	19.9	17.5	16.4	1.5	1.3	1.3	16.8%	10.9%	7.9%
Know It Ab	SEK	195.0	357.2	15.4	14.1	12.9	1.0	1.0	0.9	9.7%	6.4%	6.4%
Hiq International Ab	SEK	46.9	249.2	15.6	14.7	13.6	1.4	1.3	1.2	0.9%	3.2%	5.8%
Addnode Group Ab	SEK	159.5	507.3	27.8	21.5	19.8	1.6	1.5	1.4	16.9%	7.5%	5.6%
B3 Consulting Group Ab	SEK	45.5	32.6	13.0	9.8	8.7	0.6	0.5	0.5	15.0%	4.7%	3.3%
Vincit Oyj	EUR	5.1	61.2	20.4	14.6	11.6	na	na	na	13.0%	7.5%	7.0%
Digia Oyj	EUR	3.8	102.7	14.0	11.3	10.3	1.0	0.8	0.8	17.1%	11.9%	4.8%
Gofore Oyj	EUR	7.6	107.1	18.6	15.0	12.8	1.5	1.3	na	28.3%	13.1%	10.4%
Average				17.5	14.9	13.6	1.2	1.1	1.0	13.2%	7.2%	5.4%
Median				15.6	14.6	12.9	1.2	1.1	1.0	15.0%	7.5%	5.8%
Portfolio competitors												
Dassault Systemes Sa	EUR	142.6	37615.7	39.9	34.7	30.6	9.6	7.8	7.1	16.3%	20.9%	8.9%
Qt Group Oyj	EUR	18.0	427.1	3590.0	63.0	27.0	7.4	5.6	na	24.3%	27.1%	25.3%
Autoliv Inc	USD	82.9	6571.5	14.6	12.0	10.4	1.0	1.0	0.9	-1.9%	4.4%	5.6%
Veoneer Inc	USD	16.6	1678.2	nm	nm	nm	0.6	0.8	0.8	-14.0%	9.7%	17.0%
Seeing Machines Ltd	AUD	4.4	171.6	nm	nm	483.3	5.2	3.9	2.4	50.1%	41.4%	46.9%
Blue Prism Group Plc	GBP	1122.0	1065.6	nm	nm	nm	8.3	5.2	3.7	79.2%	72.4%	42.7%
Average				1214.8	36.6	137.8	5.4	4.0	3.0	25.7%	29.3%	24.4%
Median				39.9	34.7	28.8	6.3	4.5	2.4	20.3%	24.0%	21.2%
Siili SEB estimates vs. peers												
Siili Solutions Oyj	EUR	9.0	63.3	19.3	12.9	10.6	0.8	0.7	0.6	15.1%	10.0%	9.0%
vs. Global / Regional large cap IT Service median				13.3%	-17.4%	-25.5%	-57.5%	-61.8%	-63.9%	109.4%	41.8%	50.6%
vs. Nordic small cap IT Service median				24.2%	-11.6%	-17.8%	-31.6%	-38.2%	-39.7%	0.6%	32.9%	55.5%
vs. Portfolio competitors				-51.6%	-62.9%	-63.3%	-87.0%	-84.7%	-76.0%	-25.8%	-58.5%	-57.4%

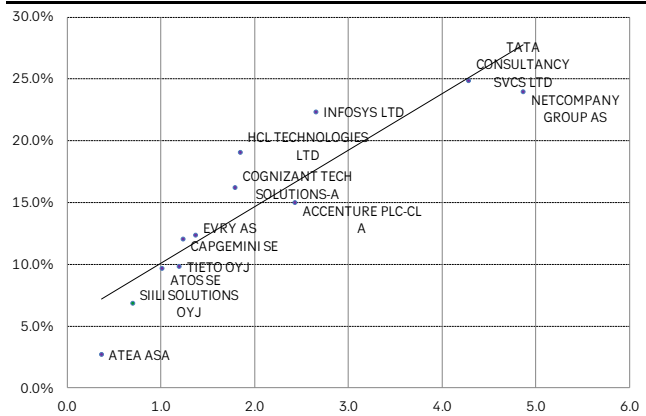
Source: SEB, Bloomberg

Global and Nordic peer groups vs. Siili Solutions

	EV/EBITDA			EV/EBIT			EBIT margin (%)			Share price performance (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	1M	3M	12M
Global / Regional large IT Service cos												
Tata Consultancy Svcs Ltd	17.7	16.0	14.5	19.2	17.3	15.7	24.5%	24.9%	24.8%	-6.5	-6.0	8.4
Infosys Ltd	12.0	10.5	9.5	13.7	12.0	10.8	21.7%	22.4%	22.3%	6.8	-12.8	8.5
Hcl Technologies Ltd	9.2	8.1	7.0	11.0	9.9	8.5	19.0%	19.0%	19.1%	-0.6	1.4	12.4
Accenture Plc-Cl A	15.8	14.5	13.4	18.0	16.4	15.0	14.8%	15.0%	15.3%	8.9	1.7	26.5
Cognizant Tech Solutions-A	9.8	9.3	9.1	11.5	11.2	11.0	16.7%	16.2%	16.1%	6.5	4.8	-7.6
Capgemini Se	8.7	7.9	7.2	11.3	10.0	9.0	11.7%	12.1%	12.2%	5.0	0.6	7.0
Atos Se	7.5	7.0	6.2	11.7	10.5	9.5	9.3%	9.7%	10.0%	12.2	14.4	40.0
Tieto Oyj	9.0	7.8	7.5	14.1	12.3	11.4	9.5%	9.8%	10.3%	1.2	17.4	6.4
Evry As	9.7	8.7	8.2	12.8	11.2	10.4	11.3%	12.4%	12.7%	1.0	16.4	30.4
Atea Asa	10.1	8.8	8.2	17.2	13.6	12.2	2.2%	2.7%	2.9%	8.0	13.2	15.0
Netcompany Group As	22.3	17.5	14.1	27.3	20.5	15.8	22.4%	24.0%	25.4%	2.4	8.0	35.0
Average	12.0	10.6	9.5	15.3	13.2	11.7	14.8%	15.3%	15.5%	4.1	5.4	16.6
Median	9.8	8.8	8.2	13.7	12.0	11.0	14.8%	15.0%	15.3%	5.0	4.8	12.4
Nordic small IT Service cos												
Nnit A/S	5.5	5.5	5.1	11.9	11.6	10.3	7.4%	7.6%	8.1%	11.4	41.4	-44.0
Data Respons Asa	12.7	11.3	10.8	17.0	14.9	14.1	10.2%	10.4%	10.4%	21.2	33.9	81.6
Webstep Asa	9.5	9.0	8.7	10.9	10.3	9.9	9.3%	9.5%	9.8%	1.7	0.8	2.7
Bouvet Asa	11.1	9.6	9.2	14.0	11.9	11.2	10.9%	11.3%	11.4%	20.8	18.8	70.6
Know It Ab	8.6	8.1	7.2	10.6	9.9	8.7	9.7%	9.9%	10.1%	6.0	9.3	19.6
Hiq International Ab	9.2	9.2	8.6	11.3	11.0	10.2	12.1%	12.0%	12.1%	-2.7	-2.1	-4.3
Addnode Group Ab	13.4	12.3	11.4	25.0	20.9	18.8	6.5%	7.2%	7.5%	-4.8	8.9	53.9
B3 Consulting Group Ab	7.1	5.9	5.2	10.5	8.3	7.1	5.6%	6.6%	7.1%	-1.5	-4.4	-33.3
Vincit Oyj	na	na	na	na	na	na	8.4%	10.8%	12.5%	-0.8	30.4	0.9
Digia Oyj	8.5	6.9	6.3	13.1	10.0	8.9	7.3%	8.1%	8.4%	-1.5	1.1	38.4
Gofore Oyj	11.5	9.1	na	13.3	10.3	na	11.4%	12.3%	12.9%	2.7	-3.8	-5.6
Average	9.7	8.7	8.0	13.8	11.9	11.0	9.0%	9.6%	10.1%	4.8	12.2	16.4
Median	9.4	9.0	8.6	12.5	10.6	10.2	9.3%	9.9%	10.1%	1.7	8.9	2.7
Portfolio competitors												
Dassault Systemes Sa	27.1	22.3	20.0	33.0	27.6	24.5	29.2%	28.4%	29.0%	5.5	12.8	33.4
Qt Group Oyj	155.9	36.4	na	1186.8	47.6	na	0.6%	11.7%	21.9%	19.3	32.5	120.0
Autoliv Inc	8.0	6.9	6.1	11.8	9.6	8.2	8.8%	10.2%	11.0%	4.8	22.9	-0.6
Veoneer Inc	nm	nm	nm	nm	nm	nm	nm	nm	nm	-0.4	12.3	-47.5
Seeing Machines Ltd	nm	nm	9.3	nm	nm	10.2	nm	nm	23.9%	-6.5	7.7	-14.0
Blue Prism Group Plc	nm	nm	nm	nm	nm	nm	nm	nm	nm	36.8	19.2	-20.3
Average	81.9	21.6	7.7	599.3	28.6	9.2	4.7%	11.0%	18.9%	9.9	17.9	11.8
Median	81.9	21.6	7.7	599.3	28.6	9.2	4.7%	11.0%	21.9%	5.2	16.0	-7.3
Siili SEB estimates vs. peers												
Siili	8.5	6.4	5.2	14.9	9.8	7.5	5.5%	7.1%	7.8%	13.3	3.9	10.5
vs. Global / Regional large cap IT Service median	-12.5%	-27.0%	-36.3%	9.1%	-18.4%	-31.7%	-62.9%	-52.5%	-48.9%	163.1%	-19.3%	-15.6%
vs. Nordic small cap IT Service median	-8.9%	-29.0%	-39.6%	19.1%	-8.2%	-26.6%	-41.3%	-28.3%	-23.1%	697.0%	-56.0%	281.8%
vs. Portfolio competitors	-89.6%	-70.4%	-32.2%	-97.5%	-65.8%	-18.3%	16.0%	-35.1%	-64.3%	157.1%	-75.6%	-243.1%

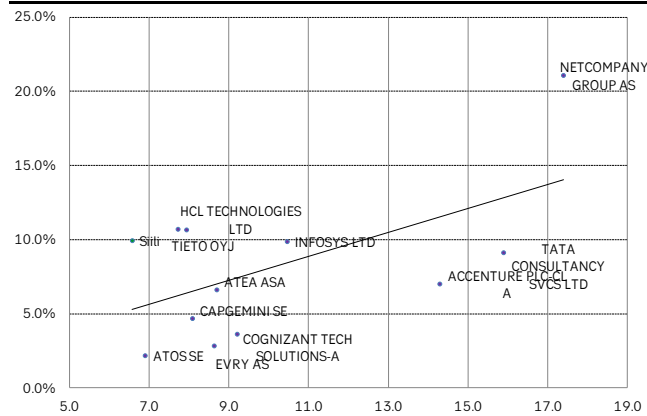
Source: SEB, Bloomberg

Global peers: EV/SALES vs. EBIT margin

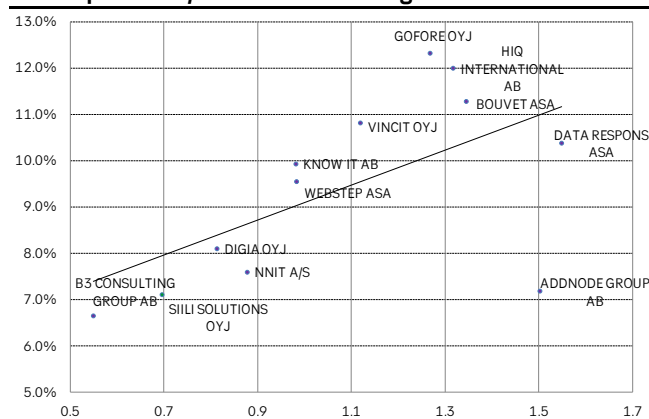


Source: SEB, Bloomberg

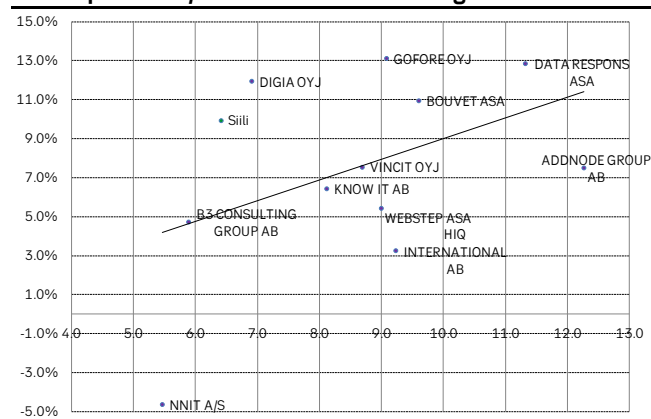
Global peers: EV/EBITDA vs. 2020E sales growth



Source: SEB, Bloomberg

Nordic peers: EV/SALES vs. EBIT margin

Source: SEB, Bloomberg

Nordic peers: EV/EBITDA vs. 2020E sales growth

Source: SEB, Bloomberg

EV/Sales discount reflects lower profitability, but growth looks cheap

When compared with either global large cap or Nordic small cap peers on EV/Sales, Siili's discount is 62% vs. global and 38% vs. Nordic peers. Siili's profitability trails global and Nordic peers and the discount is partly justified. According to our estimates, Siili's 2020 EBIT margin is 7.1%, compared with 15% for global and 10% Nordic peer medians. On 2020E P/E Siili trades at a discount of 17% and 12%, vs. Global and Nordic peers respectively. We expect the company to expand its earnings at a faster rate than its peers, making its PEG ratio below both peer group median values.

EV/EBITDA and EV/EBIT discount after the 2018 hiccup

On 2020E EV/EBITDA Siili trades at 27% and 29% discount vs. global and Nordic peers, respectively. Siili's 2020E EV/EBIT is 18% and 8% below global and Nordic peers, respectively. In our view the discount does not take into account that Siili has room to improve profitability after the exceptionally weak performance in 2018. Our estimates also indicate that Siili's sales growth will be faster than both global and local peers.

Pure software peers are in a class of their own

Part of Siili's strategy is to develop Portfolio units focused on a particular type of software development and design. In our peer group, we have some listed software peers which focus on similar niches as Siili's Portfolio units. As shown, these companies trade at a discount to the whole IT services market. This is understandable given that they have software products that are more scalable than selling labour and knowhow. However, their valuation supports Siili's claim that specialised units of excellence are more valuable than generalists.

Undervalued growth potential

In our view the market does not believe in Siili's ability to increase its sales and earnings. We believe that Siili can sustain a growth rate faster than its Nordic peers. Siili's growth originates from improving utilisation and winning ground from less agile large cap peers. Additional growth momentum originates from the evolving IT services landscape where new application use cases arise at a high rate. Siili's profitability is not on par with its closest rivals. In our view, Siili's profitability has bottomed out. Siili Auto is in growth and is not yet profitable. However, this can be turned around as the company achieves the critical mass of clients and is able to maintain high utilisation in the segment. We believe that as the company's sales mix moves to selling specialised workforce (and in other segments), the company can achieve higher efficiency.

Peer multiple valuation

Our multiples valuation for Siili Solutions is based on EV/Sales and EV/EBITDA. When compared with the peer group valuations, we find fair value ranges for Siili's EV/Sales and EV/EBITDA are 0.8x to 1.0x and 7.1x to 9.3x, respectively. Using these multiples, we derive a fair value range for Siili Solutions of EUR 10 to EUR 13.

Siili trades at 0.7x 2020E EV/Sales (vs. the Nordic small cap peer group average 1.1x). In our view, Siili's cheap EV/Sales valuation partly reflects the company's compressed profitability from 2018 and 2019. We believe that the market is currently overlooking the earnings growth potential of the company. Siili has room to improve on utilisation, which would reflect on its EBITDA margin. We are of the view that a range of 27% to 9% 2020E EV/Sales discount is justifiable, depending on the speed of profitability improvement.

On 2020E EV/EBITDA Siili trades at 6.4x (vs. the Nordic small cap peer group average of 8.7x), which is at the low-end of Siili's fair value range. Siili has the capacity to outgrow its peers driven by the positive results among existing and upcoming Portfolio units. In our view, the current EV/EBITDA multiple only accounts for the Core business and does not place emphasis on the hidden value and sales growth potential of Portfolio units. In a blue-sky scenario, where Siili Auto's growth is sustained at a high level, Vala Group growth continues to be strong and Siili Core performs well, we could see Siili trading at a 7% EV/EBITDA premium vs. peers.

Valuation range summary

Share price (EUR)	EV/Sales		EV/EBIT		EV/EBITDA		P/E	
	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
8	0.61	0.51	8.6	6.5	5.7	4.5	11.4	9.4
8.2	0.63	0.53	8.8	6.7	5.8	4.7	11.7	9.6
8.4	0.65	0.54	9.1	6.9	5.9	4.8	12.0	9.8
8.6	0.66	0.55	9.3	7.1	6.1	4.9	12.2	10.1
8.8	0.68	0.57	9.5	7.3	6.2	5.1	12.5	10.3
9	0.69	0.58	9.7	7.5	6.4	5.2	12.8	10.5
9.2	0.71	0.60	10.0	7.6	6.5	5.3	13.1	10.8
9.4	0.72	0.61	10.2	7.8	6.7	5.4	13.4	11.0
9.6	0.74	0.63	10.4	8.0	6.8	5.6	13.7	11.2
9.8	0.76	0.64	10.6	8.2	7.0	5.7	14.0	11.5
10	0.77	0.65	10.8	8.4	7.1	5.8	14.2	11.7
10.2	0.79	0.67	11.1	8.6	7.3	6.0	14.5	11.9
10.4	0.80	0.68	11.3	8.8	7.4	6.1	14.8	12.2
10.6	0.82	0.70	11.5	8.9	7.5	6.2	15.1	12.4
10.8	0.83	0.71	11.7	9.1	7.7	6.3	15.4	12.6
11	0.85	0.73	11.9	9.3	7.8	6.5	15.7	12.9
11.2	0.87	0.74	12.2	9.5	8.0	6.6	16.0	13.1
11.4	0.88	0.76	12.4	9.7	8.1	6.7	16.2	13.3
11.5	0.89	0.76	12.5	9.8	8.2	6.8	16.4	13.5
11.6	0.90	0.77	12.6	9.9	8.3	6.9	16.5	13.6
11.8	0.91	0.78	12.8	10.1	8.4	7.0	16.8	13.8
12	0.93	0.80	13.0	10.2	8.6	7.1	17.1	14.0
12.2	0.94	0.81	13.3	10.4	8.7	7.2	17.4	14.3
12.4	0.96	0.83	13.5	10.6	8.8	7.4	17.7	14.5
12.6	0.98	0.84	13.7	10.8	9.0	7.5	17.9	14.8
12.8	0.99	0.86	13.9	11.0	9.1	7.6	18.2	15.0
13	1.01	0.87	14.2	11.2	9.3	7.8	18.5	15.2
13.2	1.02	0.89	14.4	11.3	9.4	7.9	18.8	15.5
13.4	1.04	0.90	14.6	11.5	9.6	8.0	19.1	15.7
13.6	1.05	0.91	14.8	11.7	9.7	8.1	19.4	15.9
13.8	1.07	0.93	15.0	11.9	9.9	8.3	19.7	16.2
14	1.09	0.94	15.3	12.1	10.0	8.4	19.9	16.4
14.2	1.10	0.96	15.5	12.3	10.2	8.5	20.2	16.6
14.4	1.12	0.97	15.7	12.5	10.3	8.7	20.5	16.9
14.6	1.13	0.99	15.9	12.6	10.4	8.8	20.8	17.1
14.8	1.15	1.00	16.1	12.8	10.6	8.9	21.1	17.3
15	1.16	1.02	16.4	13.0	10.7	9.0	21.4	17.6

Source: SEB

SEB estimates

SEB semi-annual & annual estimates												
(EURm)	H1/18	H2/18	H1/19	H2/19E	H1/20E	H2/20E	2017	2018	2019E	2020E	2021E	2022E
Net sales	34.2	36.2	40.7	40.3	44.8	44.3	57.8	70.4	81.0	89.0	97.1	105.4
Sales Growth	17.9%	25.6%	19.1%	11.3%	10.0%	9.9%	19.4%	21.7%	15.1%	10.0%	9.0%	8.6%
External Services	-6.2	-6.7	-7.1	-7.2	-7.8	-7.9	-10.1	-12.9	-14.2	-15.7	-17.1	-18.5
<i>Of sales</i>	<i>18.1%</i>	<i>18.6%</i>	<i>17.3%</i>	<i>17.8%</i>	<i>17.3%</i>	<i>17.8%</i>	<i>-17.5%</i>	<i>-18.3%</i>	<i>-17.6%</i>	<i>-17.6%</i>	<i>-17.6%</i>	<i>-17.6%</i>
Personnel costs	-21.0	-22.5	-25.6	-24.0	-27.7	-26.1	-35.1	-43.6	-49.6	-53.8	-58.7	-63.4
<i>Of sales</i>	<i>61.6%</i>	<i>62.2%</i>	<i>62.9%</i>	<i>59.6%</i>	<i>61.9%</i>	<i>58.9%</i>	<i>-60.8%</i>	<i>-61.9%</i>	<i>-61.3%</i>	<i>-60.4%</i>	<i>-60.5%</i>	<i>-60.1%</i>
Other costs	-4.8	-5.2	-4.7	-5.0	-4.9	-5.2	-7.0	-10.1	-9.7	-10.2	-10.6	-11.0
<i>Of sales</i>	<i>42.6%</i>	<i>46.9%</i>	<i>-2.7%</i>	<i>-5.0%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>-12.0%</i>	<i>-14.3%</i>	<i>-11.9%</i>	<i>-11.4%</i>	<i>-10.9%</i>	<i>-10.4%</i>
Total expenses	-34.5	-37.4	-36.2	-40.4	-39.2	-44.3	-52.2	-66.5	-73.5	-79.6	-86.4	-92.9
EBITDA	2.3	2.6	3.5	4.2	4.5	5.2	5.8	4.1	7.8	9.7	10.9	12.7
EBITDA %	6.7%	7.1%	8.7%	10.5%	10.0%	11.7%	10.0%	5.8%	9.6%	10.8%	11.2%	12.1%
Depreciation	-0.4	-0.4	-0.9	-0.9	-0.9	-0.9	-0.4	-0.8	-1.8	-1.8	-1.8	-1.8
EBITA	1.9	2.2	2.6	3.3	3.6	4.3	5.4	3.3	5.9	7.8	9.1	10.9
EBITA %	5.6%	6.0%	6.4%	8.2%	7.9%	9.6%	9.3%	4.8%	7.3%	8.8%	9.3%	10.3%
Amortisation	-0.2	-0.7	-0.7	-0.7	-0.7	-0.7	-0.4	-0.9	-1.5	-1.5	-1.5	-1.5
EBIT	1.7	1.5	1.9	2.6	2.8	3.5	5.0	2.5	4.4	6.3	7.6	9.4
EBIT%	5.0%	4.1%	4.6%	6.4%	6.3%	8.0%	8.7%	3.5%	5.5%	7.1%	7.8%	8.9%
Pre-tax profit	1.7	1.4	1.8	2.4	2.7	3.4	5.0	2.3	4.2	6.1	7.5	9.4
Net profit	1.3	1.0	1.3	2.0	2.2	2.8	4.0	1.6	3.3	4.9	6.0	7.5
EPS (EUR)	0.19	0.14	0.19	0.28	0.31	0.39	0.57	0.23	0.47	0.70	0.85	1.07

Source: SEB

Overview

Investment considerations

We believe Siili can grow its core business at a steady rate close slightly outpacing the market growth rate. Key growth driver will be Portfolio units, most notably Siili_auto and Vala Group. Additionally, we believe in Siili's ability to create new knowhow nucleus in Core and foster them gradually into independent Portfolio units. We model in incremental profitability improvement driven by higher utilization rate particularly in Siili_auto and Core.

Company profile

Siili is a small cap Finnish IT Services company. Company divides its business into Core and Portfolio. Core consists of modern IT Services focusing on digital solutions. Portfolio is composed of independent units and it offers more specialized services. Siili largest client verticals are Public sector and Finance sector in Finland. The company serves international clients mainly through Siili_auto.

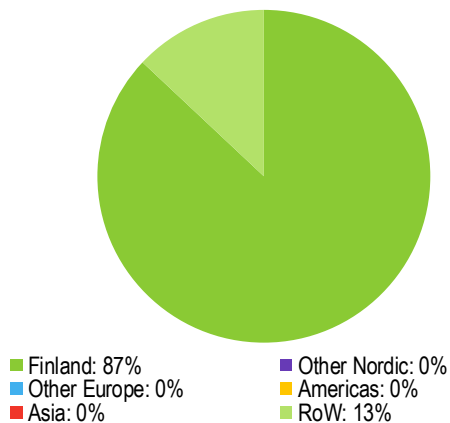
Valuation approach

Our multiple valuation for Siili Solutions is based on EV/Sales and EV/EBITDA. By benchmarking the peer valuation multiples we find stock fair value between EUR 10 and EUR 13. In DCF using WACC 9.5%, and a declining sales growth profile and improving EBITDA margin profile we get a DCF value per share of EUR 13. SOTP valuation indicates range of EUR 11-14 per share.

Investment risks

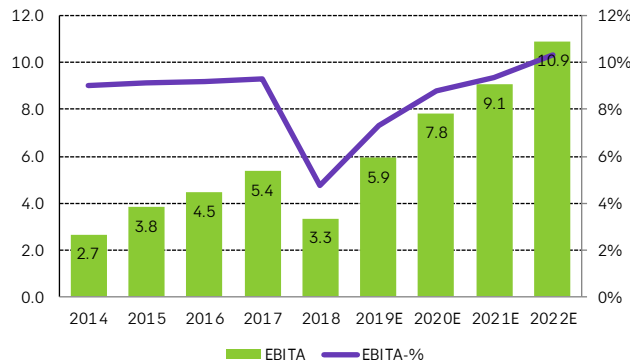
Siili growth is dependent on its ability to hire more employees and get more sales out of existing ones to ensure high utilization rate. Finding talented programmer and developers with specialized skills is already challenging and in our view will not get any easier. Without new hires growth will stop. Improving utilization requires success among sales organization. In parts of Siili business this has been a challenge. If this is not resolved, profitability may continue to struggle.

Revenues by region



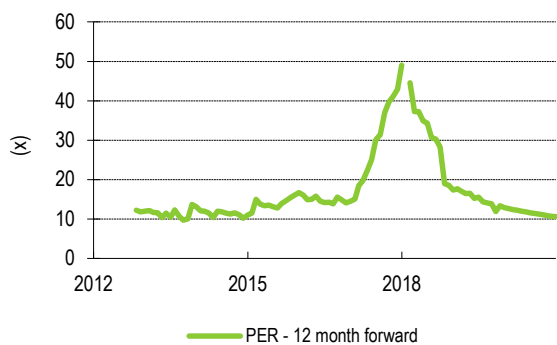
Source: SEB

EBITA margin expected to head towards 10%



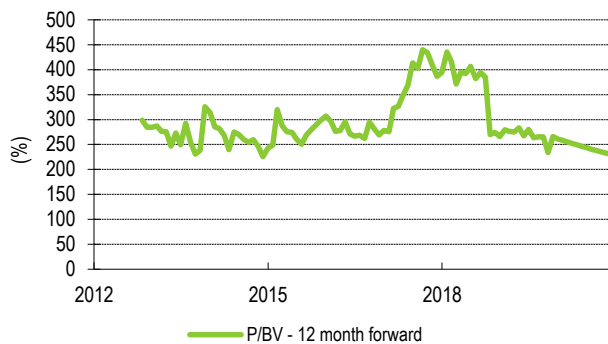
Source: SEB

PER - 12 month forward



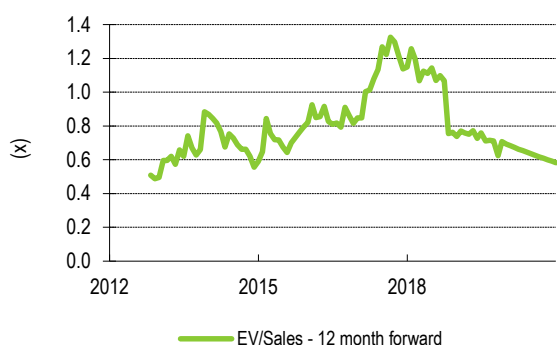
Source: SEB

P/BV - 12 month forward



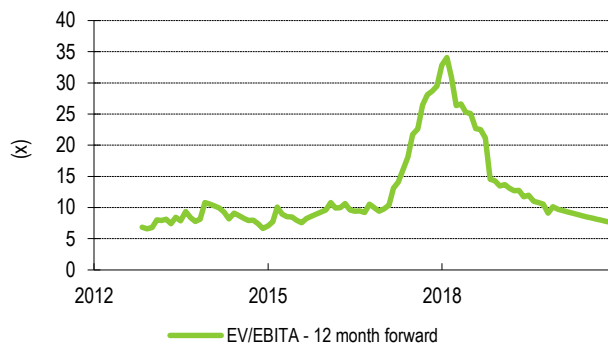
Source: SEB

EV/Sales - 12 month forward



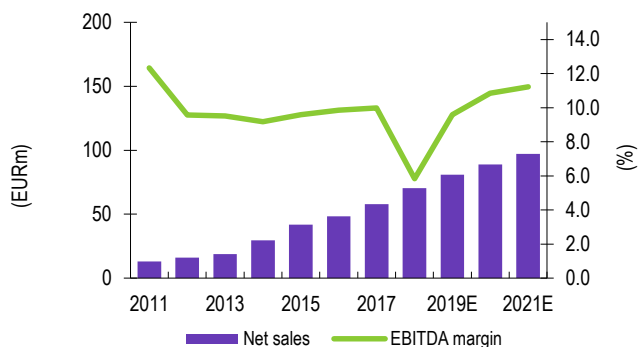
Source: SEB

EV/EBITA - 12 month forward



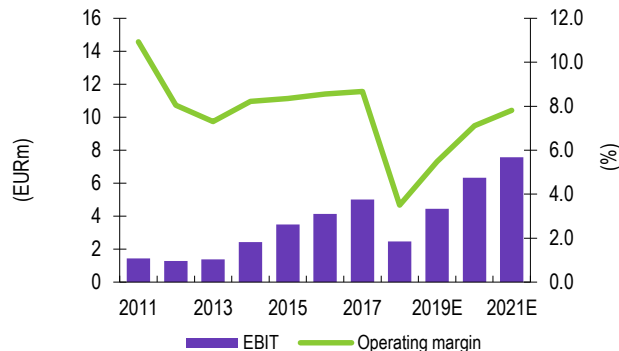
Source: SEB

Net sales & EBITDA margin



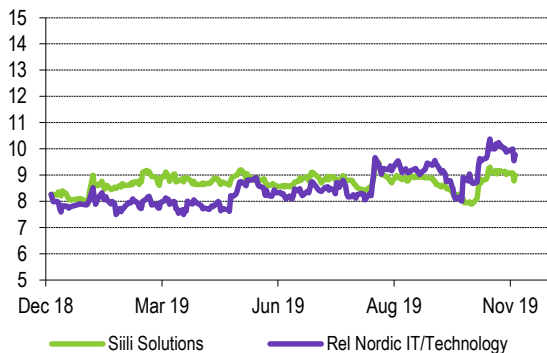
Source: SEB

EBIT & Operating margin



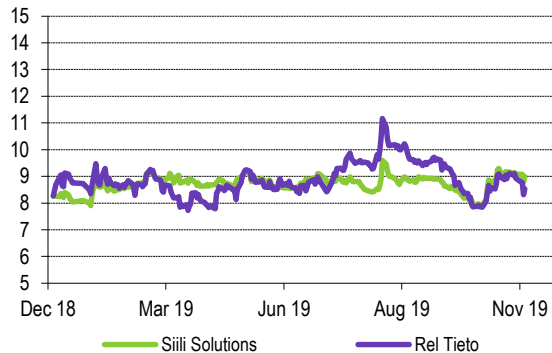
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Tieto - 1 year



Source: SIX

Profit & loss statement - Siili Solutions											
(EURm)	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	13	16	19	29	42	48	58	70	81	89	97
Other revenues	0	0	0	0	0	0	0	0	0	0	0
Total revenues	13	16	19	30	42	48	58	71	81	89	97
Total expenses	(12)	(15)	(17)	(27)	(38)	(44)	(52)	(67)	(74)	(80)	(86)
Profit before depreciation	2	2	2	3	4	5	6	4	8	10	11
Depreciation - Fixed assets	(0)	(0)	(0)	(0)	(1)	(1)	(1)	(2)	(3)	(3)	(3)
Depreciation - Other assets	0	0	0	0	0	0	0	0	0	0	0
Amortisation - Goodwill	0	0	0	0	0	0	0	0	0	0	0
Amortisation - Other intangibles	0	0	0	0	0	0	0	0	0	0	0
Operating profit	1	1	1	2	4	4	5	2	4	6	8
Net interest expenses	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Foreign exchange items	0	0	0	0	0	0	0	0	0	0	0
Other financial items	0	0	0	0	0	0	0	0	0	0	0
Value changes - Fixed assets	0	0	0	0	0	0	0	0	0	0	0
Value changes - Financial assets	0	0	0	0	0	0	0	0	0	0	0
Value changes - Other assets	0	0	0	0	0	0	0	0	0	0	0
Reported pre-tax profit	1	1	1	2	3	4	5	2	4	6	7
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Total taxes	(0)	(0)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Reported profit after tax	1	1	1	2	2	3	4	2	3	5	6
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0	0	0	0	0	0
Net Profit	1	1	1	2	2	3	4	2	3	5	6
Adjustments:											
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0	0	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0	0	0	0	0	0	0
Value changes	0	0	0	0	0	0	0	0	0	0	0
Goodwill/intangibles amortisations	0	0	0	0	0	0	0	0	0	0	0
Restructuring charges	0	0	0	0	0	0	0	0	0	0	0
Other adjustments	0	0	0	0	0	0	0	0	0	0	0
Tax effect of adjustments	0	0	0	0	0	0	0	0	0	0	0
Adjusted profit after tax	1	1	1	2	2	3	4	2	3	5	6
Margins, tax & returns											
Operating margin	10.9	8.0	7.3	8.2	8.4	8.6	8.7	3.5	5.5	7.1	7.8
Pre-tax margin	10.9	6.6	7.3	7.5	7.5	8.3	8.6	3.3	5.2	7.0	7.7
Tax rate	29.1	28.5	23.8	21.0	22.2	20.9	20.5	31.7	22.0	21.0	20.0
ROE	155.4	36.8	28.0	28.6	25.8	21.7	20.5	7.8	16.0	21.6	23.1
ROCE	169.1	56.9	37.0	25.0	23.3	24.2	24.7	9.0	13.1	18.6	22.4
Growth rates y-o-y (%)											
Total revenues	n.a.	22.1	17.0	57.7	41.4	15.6	19.6	21.9	15.1	9.8	9.0
Operating profit	n.m.	(10.2)	6.3	76.5	44.4	18.3	20.9	(50.8)	80.0	42.7	19.6
Pre-tax profit	n.m.	(25.3)	28.2	62.8	41.9	27.2	24.2	(53.7)	81.6	48.1	20.2
EPS (adjusted)	0.0	(32.9)	17.6	53.9	27.8	15.4	18.8	(60.4)	107.4	50.0	21.7
Cash flow											
(EURm)	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net profit	1	1	1	2	2	3	4	2	3	5	6
Non-cash adjustments	0	0	1	0	1	1	1	1	3	3	3
Cash flow before work cap	1	1	2	2	3	4	5	3	7	8	9
Ch. in working capital / Other	0	(0)	0	0	1	1	0	(1)	1	0	0
Operating cash flow	2	1	2	2	4	5	5	2	7	8	10
Capital expenditures	(0)	(0)	(0)	(0)	(0)	(1)	(1)	(1)	(2)	(2)	(2)
Asset disposals	0	0	0	0	0	0	0	0	0	0	0
L/T financial investments	0	0	0	0	0	0	0	0	0	0	0
Acquisitions / adjustments	(0)	0	(1)	(2)	(1)	(1)	(2)	(5)	(1)	0	0
Free cash flow	1	1	1	(0)	2	3	2	(3)	4	6	8
Net loan proceeds	0	(0)	0	2	(0)	0	(0)	7	(2)	(3)	(3)
Dividend paid	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(3)	(2)	(2)	(2)
Share issue	0	2	0	0	0	4	0	0	0	0	0
Other	0	0	0	0	0	(1)	0	0	(0)	0	0
Net change in cash	0	1	0	1	1	5	(1)	1	0	1	2
Adjustments											
C/flow bef chng in work cap	1	1	2	2	3	4	5	3	7	8	9
Adjustments	0	0	0	0	0	0	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0	0	0	0	0	0	0
Cash earnings	1	1	2	2	3	4	5	3	7	8	9
Per share information											
Cash earnings	0.4	0.24	0.32	0.38	0.59	0.6	0.67	0.38	0.94	1.18	1.33
Operating cash flow	0.43	0.22	0.34	0.42	0.69	0.78	0.7	0.3	1.03	1.21	1.36
Free cash flow	0.37	0.16	0.19	(0.09)	0.38	0.51	0.23	(0.48)	0.58	0.92	1.07
Investment cover											
Capex/sales (%)	0.7	1.4	0.5	1.1	0.8	1.1	2.1	1.2	2.5	2.2	2.1
Capex/depreciation (%)	50	94	20	120	68	88	159	52	60	60	60

Source for all data on this page: SEB

Balance sheet - Siili Solutions											
(EURm)	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Cash and liquid assets	1	2	3	4	5	10	9	10	10	11	13
Debtors	3	3	3	6	6	9	9	13	14	16	17
Inventories	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	1	2	0	0	0	0	0	0
Current assets	4	5	6	11	13	19	18	23	25	27	30
Interest bearing fixed assets	0	0	0	0	0	0	0	0	0	0	0
Other financial assets	0	0	0	0	0	0	0	0	0	0	0
Capitalized development cost	0	0	0	0	0	0	0	0	0	0	0
Goodwill	1	1	2	9	9	9	12	19	19	19	19
Other intangibles	0	0	0	2	2	3	3	6	6	6	6
Fixed tangible assets	0	0	0	1	1	1	1	3	2	0	0
Other fixed assets	0	0	0	0	0	0	0	0	0	0	0
Fixed assets	1	1	2	12	11	12	15	26	28	26	25
Total assets	5	6	9	23	24	31	34	49	52	53	55
Creditors	3	3	4	7	8	11	12	14	17	18	20
Other trade financing	0	0	0	0	0	0	0	0	0	0	0
S/T interest bearing debt	0	0	0	4	3	0	0	1	3	2	2
Other	0	0	0	0	0	0	0	0	0	0	0
Current liabilities	3	3	4	11	11	11	12	16	19	20	22
L/T interest bearing debt	0	0	0	4	1	1	0	12	11	8	5
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other provisions	0	0	0	0	0	0	0	0	0	0	0
Deferred tax	0	0	0	0	0	0	0	1	1	1	1
Long term liabilities	0	0	0	4	2	1	1	13	12	9	6
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	1	3	5	8	11	18	21	20	21	24	28
Total liabilities and equity	5	6	9	23	24	31	34	49	52	53	55
Net debt (m)	(1)	(2)	(3)	4	(1)	(9)	(8)	4	3	(1)	(6)
Working capital (m)	(0)	(0)	(0)	(0)	(0)	(2)	(2)	(2)	(2)	(3)	(3)
Capital employed (m)	2	3	5	15	15	19	22	33	34	34	34
Net debt/equity (%)	(62)	(75)	(56)	46	(9)	(47)	(39)	18	14	(6)	(23)
Net debt/EBITDA (x)	(0.5)	(1.4)	(1.4)	1.3	(0.3)	(1.8)	(1.4)	0.9	0.4	(0.1)	(0.6)
Equity/total assets (%)	26	47	54	34	48	59	61	40	41	45	50
Interest cover	120.1	5.7	153.0	10.5	9.4	29.5	98.9	16.1	18.5	55.6	73.0

Valuation											
(EUR)	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
No of shares, fully dil. (y/e)	1.3	1.6	1.7	1.9	2.0	6.9	7.0	7.0	7.0	7.0	7.0
No of shares, fully dil. avg.	1.3	1.4	1.6	1.8	2.0	6.6	7.0	7.0	7.0	7.0	7.0
Share price, y/e		2.5	4.3	4.6	8.0	8.3	11.1	8.1	9.0	9.0	9.0
Share price, high		2.6	4.8	4.6	8.0	9.2	13.5	12.9	9.9		
Share price, low		2.4	2.5	3.5	4.5	6.9	7.9	7.5	7.8		
Share price, avg		2.5	3.1	4.2	6.2	7.8	10.8	11.0	8.8		
EPS (reported)	0.27	0.18	0.21	0.33	0.42	0.48	0.57	0.23	0.47	0.70	0.85
EPS (adjusted)	0.27	0.18	0.21	0.33	0.42	0.48	0.57	0.23	0.47	0.70	0.85
Cash earnings/share	0.40	0.24	0.32	0.38	0.59	0.60	0.67	0.38	0.94	1.18	1.33
Dividend/share	0.00	0.00	0.14	0.16	0.08	0.30	0.39	0.23	0.30	0.35	0.45
Enterprise value/share		2.1	3.8	5.2	7.8	7.0	9.9	8.6	9.4	8.8	8.1
Book value/share	0.3	0.6	0.9	1.4	1.9	2.6	3.0	2.8	3.0	3.4	4.0
Adjusted equity/share	0.3	0.6	0.9	1.4	1.9	2.6	3.0	2.8	3.0	3.4	4.0
PER (adjusted)		14.1	20.2	14.0	19.3	17.2	19.4	35.9	19.2	12.8	10.5
CEM		10.6	13.5	12.1	13.6	13.7	16.6	21.3	9.6	7.7	6.8
Dividend yield		0.0	3.2	3.4	1.0	3.6	3.5	2.8	3.3	3.9	5.0
EV/EBITDA		6.3	10.9	10.8	11.8	10.2	12.0	14.6	8.5	6.4	5.2
EV/EBITA		7.6	14.2	12.1	13.5	11.7	13.8	24.4	14.9	9.7	7.5
EV/EBIT		7.6	14.2	12.1	13.5	11.7	13.8	24.4	14.9	9.7	7.5
EV/Sales (x)		0.61	1.04	0.99	1.13	1.00	1.20	0.86	0.81	0.69	0.58
Price/Book value		4.19	4.80	3.35	4.26	3.17	3.73	2.89	2.96	2.61	2.28
Price/adjusted equity		4.19	4.80	3.35	4.26	3.17	3.73	2.89	2.96	2.61	2.28
Free cash flow/Market cap (%)		6.4	7.5	7.9	7.9	8.4	4.7	2.2	8.3	10.2	11.9
Operating cash flow/EV (%)		9.5	8.6	7.8	8.6	10.6	7.0	3.5	10.9	13.7	16.8
EV/Capital employed (x)		3.4	4.2	1.9	3.1	2.5	3.2	1.8	1.9	1.8	1.7

Main shareholders			Management		Company information	
Name	(%)	Votes	Capital	Title	Name	Contact
Erina Oy	11.7	11.7		COB	Harry Brade	Internet https://www.siili.com/
Elo Mutual Pension Insurance Company	9.9	9.9		CEO	Marko Somerma	Phone number 0
Lamy Oy	8.8	8.8		CFO	Aleksi Kankainen	
Foreign owners (total)	10.0	10.0		IR	Andreas Strandman	

Source for all data on this page: SEB

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